REPORT ON THE DEPARTMENT OF THE TREASURY'S FISCAL YEAR 1999 FINANCIAL STATEMENTS

OIG-00-056 FEBRUARY 29, 2000

Office of Inspector General

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United States Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

FEB 2 9 2000

MEMORANDUM FOR SECRETARY SUMMERS

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Report on the Department of the Treasury's Fiscal Year 1999 Financial Statements

SUMMARY

Attached is our report on the Department of the Treasury's (the Department) Consolidated Balance Sheet as of September 30, 1999, its Consolidated Statements of Net Costs, Changes in Net Position, and Custodial Activity, and its Combined Statements of Budgetary Resources and Financing for the year then ended (the "financial statements"). This audit is required by the Government Management Reform Act of 1994 (GMRA), which expanded the Chief Financial Officers Act of 1990 (CFO Act). These financial statements are incorporated in the accompanying *Department of the Treasury Accountability Report for Fiscal Year 1999*.

In accordance with generally accepted government auditing standards, the Report of the Office of Inspector General is dated February 11, 2000, the last date of audit field work.

DISCUSSION

Our report includes our qualified audit opinion on the financial statements. Our audit opinion was qualified because the Internal Revenue Service (IRS) was not able to provide sufficient evidence to support certain account balances related to its administrative activities in its financial statements.

Our report discusses two material weaknesses and three other reportable conditions identified during our audit. The two material weaknesses relate to financial management and reporting at the IRS, and electronic data processing (EDP) general controls at certain bureaus. The other reportable conditions address financial management improvements needed at the United States Customs Service (Customs), the Financial Management Service (FMS), and certain other component entities.

We noted four instances of noncompliance with applicable laws and regulations. The Department reported that it is not in substantial compliance with the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and we concur with this assessment. The IRS' installment agreements were not in compliance with the Internal Revenue Code (IRC). Also, the IRS did not release federal tax liens in accordance with the IRC. Finally, Customs did not complete its biennial review of reimbursable fees and charges, as required by the CFO Act.

The Department made progress during the past year in meeting its financial management objectives, however major challenges remain. Foremost among these challenges is to firmly address pervasive, continuing financial management deficiencies at the IRS. The inability of the IRS to produce reliable financial information resulted in a qualified opinion on the Department's financial statements. The ability of the Department to achieve an unqualified opinion, and comply with the FFMIA requirements, is predicated in large part upon major financial management improvements at the IRS. This will require the strong commitment and direct involvement by IRS executive management to develop and implement effective corrective action plans. The Department should be actively engaged with the IRS in this effort and provide close oversight.

The Department also should work closely with Customs, FMS, and other Treasury component entities to address the internal control weaknesses and non-compliances with laws and regulations referred to in our report.

Resolution of these financial management issues would not only facilitate successful annual audits, but, more significantly, enable timely and reliable information throughout the year for better management and more informed decision-making.

Your continued support is essential for the Department to build upon its recent accomplishments and meet the continuing challenges. We are committed to working with you to achieve the Department's financial management goals.

In accordance with the Department of the Treasury Directive No. 40-01, we request a corrective action plan be provided to us within 30 days of the date of this memorandum. We recognize that certain corrective actions have already been undertaken. We encourage these efforts and will continue to provide advice and assistance to the Department during the implementation of the necessary improvements to its internal control.

Should you or your staff have questions, you may contact me at (202)622-1090 or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit, at (202)927-5430.

Attachment

cc: Lisa Ross
Acting Assistant Secretary for Management and Chief Financial Officer

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SECTION I -

REPORT OF THE OFFICE OF INSPECTOR GENERAL

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REPORT OF THE OFFICE OF INSPECTOR GENERAL

To the Secretary of the Treasury

We audited the Department of the Treasury's (the Department) Consolidated Balance Sheet as of September 30, 1999, and the related Consolidated Statements of Net Cost, Changes in Net Position, and Custodial Activity, and the Combined Statements of Budgetary Resources and Financing, for the year then ended. These financial statements are incorporated in the accompanying *Department of the Treasury Accountability Report for Fiscal Year 1999 (FY 1999 Accountability Report).*

This report presents our opinion on these financial statements, which is qualified because the Internal Revenue Service (IRS) could not provide sufficient evidence to support certain administrative accounts. Our audit disclosed the following material weaknesses, as defined on page 5 of this report:

- Financial Management and Reporting at IRS Needs Improvement (Repeat Condition) (see page 6).

- Electronic Data Processing (EDP) General Controls Over Financial Systems Should be Strengthened (Repeat Condition) (see page 9).

Our audit also disclosed the following reportable instances of noncompliance with laws, regulations, and government-wide policies, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA):

- IRS' installment agreements are not in compliance with Section 6159 of the Internal Revenue Code (IRC) (Repeat Condition) (see page 16).

- IRS did not release federal tax liens in accordance with Section 6325 of the IRC (see page 16).

- The U.S. Customs Service (Customs) did not complete its biennial review of fees and charges for its reimbursable projects as required by the Chief Financial Officers Act of 1990 (Repeat Condition) (see page 16).

In addition, the Department's financial management systems did not substantially comply with the requirements of FFMIA (Repeat Condition) (see page 17).

We considered these material weaknesses and instances of noncompliance in determining our audit procedures and in forming our opinion on whether the Department's fiscal year (FY) 1999 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. These weaknesses and instances of noncompliance, other than those noted in the opinion section of this report, do not affect our opinion on these financial statements.

These findings, along with other reportable conditions, are described in more detail in the following sections of this report.

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for:

- Preparing the financial statements in conformity with generally accepted accounting principles.
- Preparing the Management Discussion and Analysis (MD&A) of the Department, Supplemental Information, and other accompanying information.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of internal accounting policies and procedures.
- Complying with laws, regulations, and government-wide policy requirements applicable to the Department.

SCOPE OF AUDIT

Except as discussed in the Opinion on the Financial Statements section of this report, we conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended (OMB Bulletin No. 98-08). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In planning and conducting our audit of the Department's financial statements for the year ended September 30, 1999, we considered its internal control over financial reporting and compliance with laws, regulations, and government-wide policy requirements. Specifically, we obtained an understanding of the design of the Department's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting and compliance with laws, regulations, and government-wide policy requirements. Consequently, we do not provide an opinion on such controls.

In addition, with respect to internal controls related to performance measures reported in the MD&A, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with: (1) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (2) certain other laws, regulations, and government-wide policy requirements specified in OMB Bulletin No. 98-08, including the requirements referred to in the FFMIA. We limited our test of compliance to these provisions and we did not test compliance with all laws, regulations, and government-wide policy requirements applicable to the Department. Providing an opinion on compliance with laws, regulations, and government-wide policy requirements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the following three general requirements: Federal Financial Management Systems Requirements (FFMSR), Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08.

RESULTS OF AUDIT

OPINION ON THE FINANCIAL STATEMENTS

As described on page 6 of this report, the scope of our audit was limited because IRS could not provide sufficient evidence to support the following accounts related to its administrative activities: (1) the opening balances of fund balance with Treasury, property and equipment, accounts payable, and net position, (2) the non-payroll program costs and related budgetary balances, and (3) the components of net position.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding IRS' administrative accounts referred to above, the Department's financial statements present fairly, in all material respects, its assets, liabilities, and net position as of September 30, 1999, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the year then ended, in conformity with generally accepted accounting principles.

OTHER INFORMATION

Our audit was conducted for the purpose of expressing an opinion on the Department's financial statements for the year ended September 30, 1999, referred to above. The information contained in the MD&A, the Supplemental Information, and other accompanying information, is not a required part of the financial statements but is required by OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it. However, we compared this information for consistency with the financial statements and, based on this limited work, we found no material inconsistencies.

INTERNAL CONTROL

Internal control is a process, effected by the Department's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;

- Compliance with applicable laws and regulations - transactions are executed in accordance with: (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (2) any other laws, regulations, and government-wide policy requirements identified in OMB Bulletin No. 98-08; and

- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin No. 98-08, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control, that could adversely affect the Department's ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our *Report on the Department of the Treasury's Fiscal Year 1998 Financial Statements* (OIG-99-054, issued March 25, 1999), and that continued to exist during FY 1999, are identified as "Repeat Condition."

MATERIAL WEAKNESSES

Financial Management and Reporting at IRS Needs Improvement (Repeat Condition)

The audit of IRS' FY 1999 financial statements disclosed that, although improvements were made in certain areas, pervasive weaknesses continued to exist in the design and operation of IRS' automated financial and related operational systems, accounting procedures, documentation, record-keeping, and internal controls, including computer security controls. These weaknesses, as they relate to IRS' administrative activities, resulted in limitations to the scope of the IRS audit. The scope limitations related to insufficient evidence to support (1) the opening balances of IRS' fund balance with Treasury, property and equipment, accounts payable, and net position, (2) the reliability of program costs and budgetary balances, and (3) the components of the $2.2 billion net position as of September 30, 1999. Regarding the scope limitation related to program costs and budgetary balances, IRS could not support FY 1999 net program costs of $8.2 billion; however, it was able to reliably account for total payroll costs of $6.0 billion included in net program costs.

These scope limitations prevented IRS from receiving unqualified opinions on five of its six financial statements. IRS received a qualified opinion on its balance sheet and disclaimers of opinion on its Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing. An unqualified opinion was rendered on the Statement of Custodial Activity, however, this achievement required extensive, costly, and time-consuming ad hoc procedures, and significant adjustments.

The material weaknesses reported at IRS are summarized below:

- IRS did not have adequate internal controls over its financial reporting process to provide reasonable assurance that its financial statements were fairly presented. Specifically, IRS' general ledger (1) did not always use the standard federal accounting classification structure, (2) was not current or accurate, and (3) was not supported by adequate audit trails for property and equipment, program costs, federal tax revenue, federal tax refunds, or taxes receivable. As an improvement over FY 1998, IRS was able to produce a listing of accounts payable as of September 30, 1999; however, audit tests found that the listing was incomplete and included invalid items. Additionally, IRS was unable to generate reliable cost-based performance measures consistent with the Government Performance and Results Act of 1993. IRS' financial statements were affected by material amounts that were either not recorded in the general ledger until the subsequent year or not recorded in its general ledger at all. Consequently, the general ledger had to be supplemented by extensive analysis and material adjustments. These supplemental procedures are costly, labor intensive, prone to error, and typically require several months to complete. As a result of these problems, IRS cannot produce reliable financial statements or financial performance information throughout the year as a management tool.

- IRS continued to lack a detailed listing, or subsidiary ledger, which tracks and accumulates unpaid assessments and their status on an ongoing basis. The lack of such a subsidiary ledger renders IRS unable to timely identify and focus collection efforts on accounts most likely to prove collectible and impedes its ability to prevent or detect and correct errors in taxpayer accounts. In addition, errors in taxpayer records and significant delays in recording activity in taxpayer accounts were identified. Although the overall level of documentation for unpaid assessments has greatly improved over previous years, there continued to be a lack of documentation for certain cases.

- IRS continued to have insufficient controls over refunds to ensure that inappropriate payments for tax refunds were not disbursed. Specifically, IRS did not have adequate (1) preventive controls to stop disbursements of invalid refunds or (2) detective controls to identify invalid refunds that have been disbursed so that collection efforts may be pursued. IRS did not (1) compare the information on tax returns to third party data in time to identify and correct discrepancies between these documents before issuing refunds, (2) always review Earned Income Tax Credit claims in time to identify invalid claims before refunds were issued, (3) consistently post assessments to taxpayer accounts timely, and (4) have adequate controls to prevent duplicate refunds from being issued.

- Unlike FY 1998, IRS' auditors were able to conclude that the amount reported as fund balance with Treasury for its administrative activities was fairly stated at September 30, 1999. However, despite substantial efforts, IRS had not fully reconciled its administrative fund balance with Treasury accounts at fiscal year-end to central agency accounting records maintained by the Financial Management Service (FMS). These unresolved differences and IRS' lack of routine and complete reconciliations raised serious concerns about its ongoing ability to ensure that it complies with the law governing the use of its budget authority. Without this crucial control, it was difficult, if not impossible, for IRS to determine if operating funds were being properly spent or if reported amounts for program costs, assets, and liabilities were reliable.

- IRS had seriously flawed systems and controls over its property and equipment. As a result, IRS was unable to rely on its subsidiary records to account for or report its inventory of property and equipment in accordance with generally accepted accounting principles. IRS did not have an integrated property management system that appropriately records additions and disposals as they occur. As in previous years, audit tests found significant errors in the quantities and valuations of property and equipment included in IRS' subsidiary records. IRS developed the balance of $1.3 billion of net property and equipment at September 30, 1999 primarily based upon a statistical estimate by a consulting firm. While IRS' costly and time-consuming effort did produce a reasonable property and equipment balance at year-end, IRS' statements of net cost, changes in net position, and financing continued to be adversely affected by its inability to distinguish property and equipment purchases from expenses or to reliably report depreciation expense. If IRS does not implement needed improvements for fiscal year 2000, it will have spent over $1 million on an estimate that was reliable for only one day and may be unable to properly account for the billions of dollars it plans to spend on tax systems modernization over the next decade.

- IRS' internal controls were inadequate to provide reasonable assurance that the budgetary balances reported on its financial statements were reliable or that its obligations did not exceed budgetary resources. As a result, insufficient evidence was available to determine whether the components of the net position of $2.2 billion were reliable. The FY 1999 audit found obligations still recorded that should have been deobligated and unexpended appropriations that should have been recorded as expended. In addition, IRS did not promptly record expenditures against appropriations for payments made automatically through Treasury. Instead, for some expenditures for which the funding information and/or supporting documentation was incomplete, IRS recorded the transactions in suspense accounts while awaiting supporting documentation. Additionally, IRS' automated controls over the use of its budgetary resources were not effective in that excessive numbers of individuals had the capability to override its automated spending controls. As a result of these weaknesses, IRS did not have current, accurate budgetary information and reliable budgetary controls to successfully manage operations on an ongoing basis and to ensure that resources were expended only in accordance with established authority.

- IRS has made significant progress in improving computer security at its facilities. It has also established and is implementing a servicewide computer security planning and management program that should, when fully implemented, help IRS effectively manage its computer security risks. However, IRS continued to have serious weaknesses in general controls designed to protect computing resources from unauthorized use, modification, loss, and disclosure. These weaknesses were in the following functional areas: (1) access controls, (2) segregation of duties, (3) system software configuration, (4) service continuity, and (5) monitoring of key networks and systems.

Recommendations:

Recommendations to address the weaknesses discussed above will be issued in a supplemental report in connection with the audit of IRS' FY 1999 financial statements. Given the significance of these weaknesses to IRS' custodial and administrative responsibilities and their effect on the Department's financial statements, we reaffirm our prior year recommendation that the Assistant Secretary for Management and Chief Financial Officer ensure that IRS develops and implements an appropriate corrective action plan that will fully address the material weaknesses and reportable conditions identified in the audits of its financial statements.

EDP General Controls Over Financial Systems Should be Strengthened (Repeat Condition)

EDP general controls, which provide the structure, policies and procedures that apply to every computer operation within the Department, need to be strengthened at certain component entities, most notably IRS, Customs, and FMS. The EDP general control weaknesses at these three bureaus are summarized elsewhere in this report. The details of the general control weaknesses and audit recommendations were, or will be, provided to the respective bureau's management separately, and in some instances, due to the sensitive nature of the weaknesses, in separate reports with limited official distribution.

EDP general controls cover a variety of areas, which are generally grouped into the following six categories: (1) entity-wide security program planning and management, (2) access controls, (3) application software development and change controls, (4) system software, (5) segregation of duties, and (6) service continuity. OMB Circular No. A-130, *Management of Federal Information Resources*, establishes control requirements for the security of Federal information systems. This Circular also requires that the Department's Chief Information Officer monitor the Department's compliance with the Circular and recommend or take corrective actions as appropriate.

The entity-wide security program planning and management process provides for identifying and assessing risks, deciding what policies and controls are needed, periodically evaluating the effectiveness of these policies and controls, and acting to address any identified weaknesses. Access control weaknesses make systems vulnerable to damage and misuse by allowing individuals and groups to inappropriately modify, destroy, or disclose sensitive data or computer programs for purposes such as personal gain or sabotage. Application software development and change controls prevent unauthorized software programs or modifications to programs from being implemented. System software controls limit and monitor access to the powerful programs and sensitive files associated with the computer systems operation. Segregation of duties refers to the policies, procedures, and organizational structure that help ensure that one individual cannot independently control key aspects of a processor computer-related operation, and thereby conduct unauthorized actions or gain unauthorized access to assets or records without detection. Service continuity controls ensure that when unexpected events occur, critical operations continue without undue interruption and critical and sensitive data are protected.

Although improvements have been made, previously reported weaknesses in these general controls at certain bureaus continued to exist during FY 1999. Absence of effective general controls over computer based financial systems makes the Department vulnerable to losses, fraud, delays, or interruptions in service, and compromises the integrity and reliability of the information systems and data.

Recommendations:

Recommendations were, or will be, provided to bureau management to address these conditions. We reaffirm our prior year audit recommendation that the Department's Chief Information Officer provide effective oversight to ensure that the specific recommendations detailed in the above referenced reports, and the related plans for corrective actions, are implemented completely and timely by the various bureaus.

REPORTABLE CONDITIONS

Management of Trade Activities and Related Systems at Customs Needs Improvement (Repeat Condition)

The audit of Customs' FY 1999 financial statements identified weaknesses that continued to exist in the design and operation of its controls over trade activities and financial management and information systems. Improved controls are essential for the effective management of these activities and protection of trade revenue. These weaknesses are discussed in more detail below:

- Customs' core financial systems did not provide certain critical financial information necessary for managing operations, such as a "customer-based" subsidiary ledger for non-entity accounts receivable. The financial systems also did not capture all transactions as they occurred, such as financing sources for reimbursable transactions and the recognition of liabilities upon receipt of goods and services. Additionally, financial systems were not fully integrated. We also noted that Customs' revenue accounting system, the Automated Commercial System (ACS), did not record payments and refunds against each import entry record. Also, while significant improvements were made in the processing of property in Customs' seized property and forfeited assets tracking system, the system did not maintain accurate and sufficient currency data that could be relied upon for financial reporting purposes without substantial manual reconciliation. Consequently, the system could not produce the analysis of changes in seized currency for the seized and forfeited property disclosure. Furthermore, overrides of system controls, designed to detect possible overpayment of refunds, are not subject to supervisory approval. Finally, Customs needs to refine the source data input into its Cost Management Information System to enable it to evaluate the accuracy of budget estimates used as a basis for reimbursable charges for certain inspection positions and other reimbursable services. As a result of these weaknesses, extensive manual procedures and analyses were required to process certain routine transactions and to prepare financial statements at fiscal year-end.

- Significant deficiencies were identified in Customs' ability to provide for timely restoration of mission-critical systems that could impair Customs' ability to respond effectively to a disruption in operations. Without proper attention to service continuity, Customs risks losing the capability to process, retrieve, and protect information maintained electronically, thus significantly affecting its ability to accomplish its mission.

- Although improvements have been made, weaknesses in Customs' EDP controls continued to exist in FY 1999. Regarding its entity-wide security program planning and management, Customs did not establish a framework to assess risk, develop and implement effective security procedures, or monitor the effectiveness of these procedures on a continual basis. We also noted that Customs' policies and procedures established in its System Development Life Cycle standards and guidance were not applied to its total inventory of systems software applications. In addition, we identified several deficiencies in Customs' logical access controls over its data files, application programs, and computer-related facilities and equipment and infrastructure. Weaknesses in controls over computer based financial systems makes Customs vulnerable to losses, delays, or interruptions in service, and compromises the integrity and reliability of the information systems and data.

- Customs' controls over its drawback and compliance measurement programs (CMP) continued to need improvement during FY 1999. Customs has not implemented sufficient processing controls over drawback to prevent duplicate, excessive, or otherwise improper drawback payments. However, we noted that, as a compensating measure, Customs does perform statistical tests of drawback payments and liquidations to evaluate the validity of claims. Regarding CMP, although improvements were made during FY 1999, Customs had not implemented an effective CMP that would provide it with reasonable assurance that the revenue gap and trade compliance are accurately measured.

Recommendations

Our separate report on the audit of Customs' FY 1999 financial statements includes specific recommendations to Customs management for correcting the conditions noted above. These recommendations will be tracked and monitored at the Customs' level.

Continued Improvement in FMS Financial Management is Needed (Repeat Condition)

The audit of FMS' FY 1999 financial statements disclosed continued weaknesses in overall financial reporting and controls over property and equipment. Additional weaknesses related to suspense accounts and deposit funds were identified and resulted in a qualified opinion on FMS' FY 1999 financial statements. We did note significant improvements in certain areas, notably fund balance with Treasury reconciliations and property management. The weaknesses identified in our FY 1999 audit are discussed in more detail below:

- Financial management and reporting policies and procedures need improvement. The implementation of new accounting systems at certain FMS locations and the related changes in manual procedures resulted in a variety of financial reporting weaknesses. The following weaknesses related to the preparation of financial statements and analyses of financial data: (1) FMS did not have proper cut-off procedures in place related to certain funds, resulting in transactions not being recorded in the proper period, (2) an aging analysis of accounts receivable was not performed to determine and record an allowance for uncollectible accounts, and (3) problems arising from the reconciliations of certain accounts FMS manages on behalf of the Federal government were not resolved timely.

  We also noted weaknesses related to FMS' monitoring of the individual agency balances and collectibility of accounts receivable arising from settlements under the Contracts Disputes Act (Act). FMS makes payments to contractors for settlements made under the Act on behalf of other Federal agencies. These agencies are required by law to reimburse FMS for payments made on their behalf. Weaknesses noted were as follows: (1) vouchers were misclassified within the subsidiary ledgers by agency, (2) the detail for accounts receivable balances by agency was only maintained at the Federal department level, rather than at the bureau level, and (3) a process was not in place to determine and record an allowance for uncollectible accounts.

- Although FMS took significant steps in FY 1999 to improve property accountability, additional improvements are needed. The detailed property tracking system, Manufacturer Appraisal Company Asset Management System (MACAMS), was not integrated with the general ledger. In addition, MACAMS does not properly calculate depreciation; therefore, the use of manually prepared schedules is required. There were also inadequate internal controls to ensure proper identification, recordation, disclosure, and tracking of capital and operating leases and items that have been excessed. The effectiveness of FMS' controls to ensure property and equipment accountability and accurate financial reporting were further diminished because: (1) accountability by property custodians was not consistently and accurately tracked in MACAMS, (2) security controls over access to MACAMS were inadequate, and (3) similar assets may be depreciated using different useful lives.

- FMS provides accounting and financial reporting for a significant number of suspense accounts and deposit funds that are used by other Treasury bureaus, as well as agencies across the Federal government. Documentation supporting the liabilities for these accounts and funds were not sufficiently maintained by FMS. The majority of the unsupported suspense account balances resulted from transactions that occurred in prior years; however, adequate evidence was not available to resolve the disposition of outstanding balances. Also, certain deposit fund accounts were not supported by detailed subsidiary records identifying entities that originated the deposits.

  In addition, we noted weaknesses in the internal control over FMS' stewardship responsibilities related to deposit funds. Adequate controls were not in place to monitor the propriety of deposit fund activity on a transaction basis. For example, procedures were not performed to ensure an entity does not withdraw more funds than it originally deposited into these accounts, resulting in possible unauthorized borrowings. Finally, there were no policies or procedures in place to address the disposition of unclaimed moneys held in the deposit funds.

The operating cash of the Federal government of $59.3 billion at September 30, 1999, which is managed by FMS in conjunction with its central banking function, was audited separately from the FMS financial statements referred to above. This audit disclosed that FMS' general controls over computerized information systems that process collections and disbursements were ineffective. Computer control weaknesses were identified that placed the financial systems at significant risk of unauthorized modification or disclosure of sensitive data and programs, misuse or damage to computer resources, or disruption of critical operations. The effectiveness of general controls is a significant factor in ensuring the integrity and reliability of financial data.

Recommendations:

Our report on FMS' FY 1999 financial statements includes specific recommendations to FMS management for correcting the conditions identified during that audit. Recommendations to address the internal control weaknesses associated with FMS' cash management operations will be provided separately. These recommendations will be tracked and monitored at the FMS level.

Financial Management at Certain Other Component Entities and Activities Needs Improvement

In addition to the matters reported above pertaining to IRS, Customs, and FMS, our financial statement audits of certain other Treasury component entities identified weaknesses in various financial management areas that affect the Department's ability to produce accurate, reliable, and timely information. Specifically:

- The financial system for the Treasury Forfeiture Fund (TFF) did not provide management with useful and timely information for managing operations during the year. The TFF's accounting records were primarily maintained on a cash basis. Additionally, its general ledger did not record all balances and transactions that are reflected in TFF's financial statements due to the lack of interface between the general ledger and seized property and forfeited assets tracking systems belonging to the various law enforcement agencies participating in the TFF. (Repeat Condition)

- The Office of the Comptroller of the Currency (OCC) did not perform fund balance with Treasury reconciliations to central agency accounting records maintained by the FMS in an effective or timely manner. Additionally, account analyses and other significant accounting tasks were not performed and/or were not subject to adequate supervisory review. Also, a process was not in place to review and evaluate the accounting treatment for unusual or non-routine financial events.

As part of our audit of the Department's financial statements, we audited certain accounts related to its International Assistance Programs (IAP); however, we did not issue a separate audit report on the IAP accounts. The IAP consists of international monetary programs, multilateral lending assistance, and certain loans by the United States to foreign countries, managed by the Department's Office of International Affairs (OIA). FMS performs limited accounting services for the IAP such as maintaining the general ledger accounts and producing various financial reports. However, a financial manager has not been designated to provide OIA, which is an economic policy-making office, financial management expertise in: (1) establishing accounting policy, (2) making adequate accounting estimates, including valuation of assets, (3) implementing effective internal controls over financial reporting, and (4) preparing financial statements and related disclosures.

As a result of our audit of these accounts, adjustments of approximately $1 billion were needed to properly record the United States participation in the International Monetary Fund. In addition, a required disclosure needed to be added to the Department's financial statement footnotes to explain material differences between the Combined Statement of Budgetary Resources and the FY 1999 actual balances in the *Budget of the United States Government, Fiscal Year 2001.* (Repeat Condition)

Recommendations:

1. The audit reports for TFF and OCC provide recommendations to address the weaknesses described above for those entities. We reaffirm our prior year recommendations that (1) the Deputy Assistant Secretary for Information Systems and Chief Information Officer ensure that component entities develop and implement appropriate plans to improve and integrate their financial management systems and (2) the Assistant Secretary for Management and Chief Financial Officer reiterate requirements that essential accounting reconciliations be performed and subjected to supervisory review, and that reconciling items be investigated and resolved.

2. Based on our audit of the IAP accounts, we recommend that the Under Secretary for International Affairs, in consultation with the Assistant Secretary for Management and Chief Financial Officer formally designate a financial manager for the International Assistance Programs. The financial manager and IAP program managers should be involved in addressing all critical matters related to reporting of program activities, including accounting and reporting policy, valuation, and disclosure.

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Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

COMPLIANCE WITH LAWS AND REGULATIONS

The results of our tests of compliance with laws, regulations, and government-wide policy requirements, exclusive of FFMIA, disclosed the following three instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 98-08:

- IRS continued to be in non-compliance with Section 6159 of the IRC that requires installment agreements with taxpayers to fully satisfy the taxpayer's liability. IRS' management issued specific guidelines requiring that payments under any new installment agreement be sufficient to satisfy the taxpayer's outstanding liability, and plans to update the Internal Revenue Manual. However, these guidelines were not consistently followed. During the FY 1999 audit, instances were identified where the terms of installment agreements will not result in full payment of outstanding taxes before the statutory collection periods for these tax liabilities expire. (Repeat Condition)

- The IRC grants IRS the power to file a lien against the property of any taxpayer that neglects or refuses to pay all assessed federal taxes. Under Section 6325 of the IRC, IRS is required to release a federal tax lien within 30 days after the date the tax liability is satisfied or has become legally unenforceable. The FY 1999 audit identified instances in which taxpayers' total outstanding tax liabilities were either paid off or abated and IRS did not release the applicable federal tax lien within the 30 day requirement stipulated by the IRC.

- The Chief Financial Officers Act of 1990 requires Customs to conduct a biennial review to determine the appropriateness of fees and other charges imposed for services and things of value it provides, and to make recommendations on revising those charges to reflect actual costs incurred. For FY 1999, Customs completed the first of a two phase process that is intended to: (1) review the appropriateness of the fees, and (2) if necessary, to revise those fees to reflect costs incurred in providing the related services. Customs completed its determination of the propriety of the fees; however, it was unable to revise certain fees to reflect actual costs incurred during FY 1999 due to the weakness cited in its Cost Management Information System. Therefore, Customs is not in full compliance with the CFO Act.

  In addition, the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 requires a biennial review and reporting of COBRA charges every even numbered fiscal year. We reported in last year's audit that Customs had not complied with this requirement. During FY 1999, Customs reviewed the appropriateness of COBRA fees as part of the biennial review described above, however, it did not make recommendations for changes to those fees due to the cost accounting weakness referred to above. (Repeat Condition)

Except for the instances described above, the results of our tests of compliance disclosed no other instances of noncompliance with other laws, regulations, and government-wide policy requirements, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards,* and OMB Bulletin No. 98-08.

The results of our tests disclosed instances where the Department's financial management systems did not substantially comply with the requirements of FFMIA. In the Secretary of the Treasury's Letter of Assurance, included in Part 3 of the accompanying *FY 1999 Accountability Report*, the Secretary represented that the Department cannot provide assurance that it is in substantial compliance with FFMIA. (Repeat Condition)

The following are summaries of instances of substantial noncompliance with the requirements of FFMIA that were identified during our tests and that the Department has included in Part 3 of the *FY 1999 Accountability Report* along with planned remedial actions and related time frames, where developed:

- IRS' financial management systems: (1) do not allow for the reliable preparation of certain financial statements required by OMB Bulletin No. 97-01, as amended; (2) do not include a general ledger that conforms with the SGL; (3) lack a subsidiary ledger for unpaid assessments; (4) lack a reliable subsidiary ledger for its property and equipment; and (5) lack an effective trail from the general ledger to the subsidiary detailed records and transaction source documents. Weaknesses in controls over refunds, property and equipment, payroll, budget, and computer security also are conditions indicating that IRS' systems do not comply with FFMSR. These weaknesses further indicate that IRS cannot accumulate and report the full costs of its activities on a regular basis as required by generally accepted accounting principles. In December 1999, IRS updated its FFMIA noncompliance remediation plan. However, the implementation of some improvements is years away. Also, the plan does not specifically address: (1) the lack of a general ledger that complies with the SGL, (2) the inability to report cost accounting information, and (3) weaknesses in controls over IRS' budgetary resources. Although the plan does not address weaknesses in IRS' computer information systems, IRS has developed a program that should, if properly implemented, help IRS effectively manage its computer security risks.

- Information in FMS' financial management systems is at significant risk because of serious general control weaknesses. Additionally, FMS' general ledger system for Salary and Expense accounts was not integrated with its subsidiary property system. FMS also had weaknesses related to its responsibility to prepare the government-wide financial statements required by the Government Management Reform Act of 1994 (GMRA). These weaknesses included: (1) the inability to identify and eliminate intragovernmental transactions, (2) the inability to reconcile the financial statements with budget results, and (3) the inability of the Government to support significant portions of the total net costs of government operations.

- Customs' core financial systems do not provide complete and accurate information for financial reporting and the routine preparation of financial statements and related disclosures in accordance with OMB Bulletin No. 97-01, as amended. In addition, Customs' automated system for tracking and accounting for seized currency is not in compliance with FFMSR. Weaknesses also exist in Customs' EDP controls over: (1) timely restoration of its mission-critical systems; (2) access to data files, application programs, and computer-related facilities and equipment; and (3) application software development and program modifications.

- TFF maintained its accounting records primarily on a cash basis and its general ledger system did not record all balances and transactions that are reflected in its financial statements.

- OCC's financial management system cannot provide timely and complete information for tracking financial expenditures for program personnel. Additionally, OCC's financial management systems do not comply with FFMSR and the SGL at the transaction level.

- The U.S. Secret Service's (Secret Service) automated system for valuing and accounting for seized property was not in compliance with the applicable requirements of FFMSR. In addition, the Secret Service did not enter materials and supplies transactions in its general ledger system as inventory was used.

- The material weakness regarding EDP general controls discussed on page 9 also constitutes non-compliance with FFMSR.

Recommendations:

1. We reaffirm our prior year recommendations that the Assistant Secretary for Management and Chief Financial Officer: (1) ensure IRS addresses the noncompliance with Section 6159 of the IRC; (2) ensure Customs continues its efforts to review its user fees and other charges to comply with the Chief Financial Officers Act of 1990 and COBRA; and (3) continue to monitor and assess the progress of the bureaus in developing and implementing their remediation plans to address the identified instances of financial management systems noncompliance with the requirements of FFMIA, and in taking appropriate actions when key target dates are not met.

2. We recommend that the Assistant Secretary for Management and Chief Financial Officer ensure that IRS implements appropriate controls so that federal tax liens are released in accordance with Section 6325 of the IRC.

OTHER OBSERVATIONS

In addition to the matters discussed above, we would like to offer the following observations with regard to strengthening financial management at Treasury and facilitating financial reporting in the future.

Treasury Corporate Financial Management

Major financial management legislation enacted in recent years has underscored the need for strong corporate financial management at the Department. The ability to produce consolidated Department-wide financial statements required by GMRA is dependent upon the accuracy, consistency, timeliness and relevance of financial information provided by the bureaus. FFMIA also stresses the importance of strong corporate financial management by requiring that the Department implement and maintain financial management systems that comply with FFMSR, applicable federal accounting standards, and the SGL at the transaction level.

Meeting the challenges of GMRA and FFMIA requires that the Department exert its corporate prerogative over financial management activities throughout the Department. The Department has already taken significant actions in this regard. The Treasury Chief Financial Officer's Council, comprised of all Chief Financial Officers and their Deputies within the Department, has been an active and positive vehicle for addressing financial management issues in a Department-wide context. Also, the Department's decision to submit an annual Accountability Report, which it has done since FY 1995 under a pilot program authorized by the GMRA, is a good indicator of its corporate financial management perspective. These and other initiatives aimed at strengthening the Department's corporate financial management function need to be continued and accelerated.

The Department should continue to focus particular efforts on engaging top level bureau management to address key financial management issues affecting the integrity of their financial reporting, particularly at IRS. The continuing material weaknesses in internal control at IRS, which have been reported since financial statement audits were initiated in FY 1992, resulted in disclaimers of an audit opinion on four of the six IRS FY 1999 financial statements. This in turn resulted in a qualified audit opinion on the Department's financial statements. Although some improvements were made, they were not sufficient to materially affect the audit outcome at the IRS. IRS is the Department's largest component entity, and the IRS audit results have a substantial impact on our audit report for the Department as a whole. The ability of the Department to achieve an unqualified audit opinion and comply with FFMIA is predicated in large part upon major financial management improvements at IRS.

The "tone at the top" is a fundamental concept of management accountability. A direct commitment and involvement by top executive management is needed to focus attention and priority on critical issues facing an organization. Addressing pervasive financial management issues requires the active involvement of the chief executive and program operating heads, as well as the chief financial officer. The Department can in fact cite major financial management successes at certain bureaus in this regard. Customs and the Bureau of Alcohol, Tobacco and Firearms (ATF), along with IRS, were designated by OMB under the GMRA for stand-alone audited financial statements. Customs and ATF have made progressive improvements in financial management and have achieved unqualified audit opinions since FY 1996. In both cases, the direct involvement of the agency head and top program managers in promoting and supporting financial accountability throughout their organizations, and their direct participation in the financial statement preparation and audit process, have been instrumental in improving financial management. Likewise, IRS would benefit substantially from a more active involvement by executive management in addressing financial management issues. The Department should actively seek to fully engage IRS executive management in this effort.

The Department is also encouraged to build upon its corporate financial management initiatives in other areas, such as financial management resource issues at the bureaus. The Department already plays a significant role in this regard in its capacity as principal advisor to the bureaus on management issues. Another key area where the Department can strengthen bureau financial management is by working closely with the bureaus to ensure that key financial management vacancies are filled on a timely basis with highly qualified financial managers. The permanent

CFO position at IRS, for example, has been open for over seven months. Active involvement by the Department in assessing the bureaus' financial management structure and staffing levels would also enhance overall financial management across the Department.

A critical success factor in meeting the Department's overall financial management objectives will be to successfully develop and implement remediation plans to address the non-compliances with FFMIA cited in this report. Although all but two Treasury component entities, IRS and FMS, received unqualified audit opinions on their stand alone FY 1999 financial statements, in many cases this was achieved only through extensive efforts after the fiscal year-end to overcome material weaknesses to produce auditable information. Although this may result in materially correct annual financial statements, it does not provide for timely and reliable information during the year for management purposes. Meeting the requirements of FFMIA is a formidable challenge for the Department which will require strong corporate leadership and proactive engagement with the bureaus to ensure that viable remediation plans are developed and implemented.

Implementation of the Financial Analysis and Reporting System

The Department has made significant improvements over the past several years in its process for preparing its financial statements; however, this is a continuing challenge, due in large part to the difficulty of its component entities in producing reliable and accurate financial information in a timely manner.

In a major effort to improve this situation, the Department is developing the Financial Analysis and Reporting System (FARS), which is planned to become operational for FY 2000 financial reporting. FARS is a centralized database for its financial data, which receives and stores in a database monthly transmissions of trial balance information from each of the Department's component entities. Successful implementation of FARS should enable the Department to prepare periodic consolidated financial statements during the year, and should also expedite the preparation of the fiscal year-end consolidated financial statements.

While FARS should enhance the Department's ability to generate timely financial information, the utility of this information depends on the integrity of the data. The financial information generated from FARS will only be as good as the component entity information input into the database. FARS incorporates various controls to evaluate the integrity of the data submissions. This should enable the Department to analyze data, identify discrepancies, and perform reconciliations on a monthly basis. It should also enable the Department to monitor intra-

Departmental eliminations throughout the year, resolve differences on a timely basis and facilitate the annual consolidation.

The Department's FY 1999 financial statements submitted for audit were prepared from spreadsheets, as in prior years. The Department also undertook a parallel effort to prepare FY 1999 financial statements using FARS in order to provide a real time test of FARS' capabilities. Successful implementation of FARS for FY 2000 financial reporting is predicated upon thorough testing for the accuracy and completeness of the FY 1999 data submitted to FARS by each of the bureaus. It is also essential that accurate opening balances for FY 2000, which agree with the audited FY 1999 financial statements, be recorded in FARS. This will require that any differences between the FY 1999 FARS statements and audited statements be identified, investigated, reconciled and accurately recorded in FARS.

****

We have reviewed our findings and recommendations with the Department's financial management and have incorporated their comments as appropriate. The response to our audit report from the Assistant Secretary for Management and Chief Financial Officer is included in Section II of this report.

This report is intended solely for the information and use of the management of the Department of the Treasury, OMB, the U.S. General Accounting Office, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.

William H. Pugh

William H. Pugh
Deputy Assistant Inspector General for Audit (Financial Management)
February 11, 2000

SECTION II -

MANAGEMENT'S RESPONSE

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

FEB 23 2000

MEMORANDUM FOR JEFFREY RUSH, JR.
INSPECTOR GENERAL

FROM: Lisa Ross Lisa Ross
Acting Assistant Secretary for Management and Chief Financial Officer

SUBJECT: - Management Response – Report of the Office of Inspector General on the Department of the Treasury's Fiscal Year 1999 Financial Statements

On behalf of Secretary Summers, I am responding to your audit report on the Department's financial statements included in Treasury's Fiscal Year 1999 Accountability Report.

We appreciate your efforts to audit the Department's fiscal year 1999 financial statements. You identified two material weaknesses in your audit: Financial Management and Reporting at IRS Needs Improvement; and, EDP General Controls Over Financial Systems Should be Strengthened. My office, along with the Deputy Chief Financial Officer and the Chief Information Officer, will ensure that corrective action plans are properly developed and implemented to address these weaknesses.

Treasury has many successful financial management accomplishments to note for fiscal year 1999. In particular, for the first time since passage of the ***Government Management and Reform Act of 1994***, Treasury will meet the statutory due date of March 1 for submitting our Accountability Report. This major accomplishment was the direct result of our offices working together with a common goal in mind.

This and many other of our successful efforts in fiscal year 1999 may be overshadowed by the qualified audit opinion we received on our financial statements. However, I am convinced that working together again, along with IRS senior management, Treasury Inspector General for Tax Administration, and the General Accounting Office, we can help establish plans for IRS management that will remove the sole qualification to the Department's audit opinion.

I look forward to working with you during the next year.

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SECTION III -

DEPARTMENT OF THE TREASURY

ACCOUNTABILITY REPORT
FOR
FISCAL YEAR 1999

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A Message from the Secretary of the Treasury
March 1, 2000

I am pleased to present the Department of the Treasury's Accountability Report for fiscal year 1999 – the fifth annual Accountability Report we have issued. The report describes the Department's missions, goals and accomplishments, and demonstrates the way in which our diverse functions are tied to the Department's broad economic, financial, and law enforcement missions. The report also includes the Department's financial statements and other key management information.

The Department plays a key role in the core functions of government, including tax policy and administration, revenue collection, law enforcement, financial management, banking policy, and international and domestic economic policy. Among other activities, we fight narcotics trafficking and money laundering through our law enforcement agencies, and manage the Federal Government's debt structure. We manufacture and protect the nation's currency, process the benefit payments for millions of Americans, protect our nation's leaders, and help develop policies on the budget, the nation's tax structure, international economic matters, and inner city development.

The Department of the Treasury is a customer-driven organization that is continually striving for greater efficiencies and meeting the standard of "best in the business." This report demonstrates how we are using our key performance measures to develop a useful, forward–looking and insightful approach to management that maintains a focus on our most critical objectives. The Government Performance and Results Act continues to be a dynamic and integral part of the way we improve our operations and fulfill our many diverse missions. This report highlights many of our major accomplishments, while acknowledging the major challenges that lie ahead.

For fiscal year 1999, as in fiscal years 1998 and 1997, the Department received unqualified audit opinions on its revenue collection ($1.8 trillion) and debt management ($5.6 trillion) activities. However, the Department received an overall qualified opinion on the fiscal year 1999 financial statements due to problems with the administrative activities of the Internal Revenue Service. The Department is working with IRS to remedy this situation.

The American public deserves a government that is accountable for how it spends taxpayers' money. This Accountability Report demonstrates the Department of the Treasury's ongoing commitment to strong program and financial management. Next year, with the help of all of the senior program and financial managers in the Department, we plan to report improved results.

Sincerely,

Lawrence H. Summers

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A Message from the Acting Assistant Secretary for Management and Chief Financial Officer
March 1, 2000

Fiscal Year 1999 marked another period of improved financial management at the Department of the Treasury. In each of the past five years of producing accountability reports, the Department has used the process as an opportunity not only to provide financial information to key external customers but also as a means of expediting long-term financial management improvement.

Treasury's responsibilities for complete, timely and accurate reporting of its financial operations are huge. Treasury is the principal custodian of the revenue collected on behalf of the Federal Government and the manager of the Federal Government's debt. The revenue collection activities of three Treasury bureaus -- the Internal Revenue Service, the U.S. Customs Service, and the Bureau of Alcohol Tobacco and Firearms -- account for 98 percent of all revenue collected by the Federal Government. For fiscal year 1999, the Department collected $1.8 trillion in total net revenue and managed $5.6 trillion in principal and interest on the debt. The Department received unqualified audit opinions on these activities.

The Department received an overall qualified opinion on its fiscal year 1999 financial statements. The qualification was due to the inability of the Internal Revenue Service's administrative systems to produce timely, auditable data to support the financial statements. We are disappointed in these results and corrective actions are underway to address the problems for more favorable results in future reports.

Treasury seeks to maximize the potential of the U.S. and world economies for growth and stability. In pursuit of this, the Secretary of the Treasury is the principal economic advisor to the President and plays a critical role in policy-making by bringing an economic and government financial policy perspective to issues facing the government. The surpluses, in fiscal year 1998 and 1999, allowed Treasury to reduce the number of offerings for marketable debt, and-in effect, reduced total debt owed to the public including interest, from $3.740 trillion in FY 1998 to $3.648 trillion in FY 1999. Treasury also uses resources to help the Nation achieve a number of other important public policy goals, including voluntary compliance with the tax laws and striving for streets that are safe from illegal drugs and violent crime. This report highlights many of our accomplishments in our diverse programs.

This report identifies several issues that remain high management priorities within the Department. These include: data and EDP security; IRS modernization and restructuring; financial management weaknesses; government-wide audited financial statements; and IRS accounts receivable. In future Accountability Reports, I expect that we will have appropriately addressed all of these issues.

Sincerely,

Lisa Ross

Lisa Ross

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EXECUTIVE SUMMARY

Introduction

As a major policy advisor to the President, the Secretary of the Treasury has primary responsibility for formulating and recommending domestic and international financial, economic, and tax policy; participating in the formulation of broad fiscal policies that have general significance for the economy; identifying and collecting taxes and duties; and managing the public debt. The Secretary also oversees the activities of the Department in carrying out its major law enforcement responsibilities; in serving as the financial agent for the U.S. Government; and in manufacturing coins, currency, and other products for customer agencies.

The Department of the Treasury has been preparing the Accountability Report since Fiscal Year 1995. This Report presents our audited financial statements, as well as various program highlights, budgetary information, material financial and program weaknesses, status of audit recommendations, and Prompt Payment Act information.

Organization

The Departmental Offices functions as the "headquarters" for Treasury, and also carries out many domestic and international responsibilities. There are eleven Treasury bureaus, which manage various programs to support the four strategic mission areas.

The Department's FY 1999 operating budget for salaries and expenses was $12.1 billion, with 143,662 employees.

Mission

The Department's strategic plan identifies three programmatic mission areas, covering its ***economic***, ***financial***, and ***law enforcement*** responsibilities, and a fourth ***management*** mission area. Program performance measures were developed for each of the goals and objectives as required by the Government Performance and Results Act to evaluate the Department's programs.

Financial Statement Highlights

The Department's financial statements are presented in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants

As in FY 1998, the Department received unqualified audit opinions on its FY 1999 revenue collection and debt management activities. However, continuing problems with the IRS administrative activities resulted in the overall qualified auditor's opinion.

As of September 30, 1999, Treasury's total assets were $5.8 trillion, and total liabilities were $5.7 trillion. The majority of the liabilities is Federal debt held by the public in the forms of Treasury marketable Notes and Bonds. Liabilities also include non-marketable securities held by various Federal agencies. Net cost of Treasury operations for FY 1999 was $10.6 billion, not including $354.6 billion for interest on the Federal debt. Total net revenue collected on behalf of the Federal government was $1.8 trillion.

Program Highlights

The following presents selected program initiatives and activities during FY 1999, which contributed to Treasury's success in achieving its four mission areas.

Economic Mission: Promote Prosperous and Stable American and World Economies

Treasury seeks to maximize the potential of the U.S. and world economies for growth and stability. In pursuit of this, the Secretary of the Treasury is the principal economic advisor to the President and plays a critical role in policy-making by bringing an economic and government financial policy perspective to issues facing the government.

In the domestic arena, Treasury develops policy and guidance affecting fiscal policy, financial institutions, financial regulation, and capital markets. Treasury provides advice and assistance to the President in the areas of domestic finance, banking, and other related economic matters, including issues relating to financial institutions, federal debt finance, federal cash management, financial regulation, capital markets, and U.S. Government accounts and payments. Key accomplishments during the fiscal year include:

- Reducing the number of offerings for marketable debt, due to the surpluses in fiscal years 1998 and 1999, thereby reducing total debt owed to the public including interest from $3.740 trillion in FY 1998 to $3.648 trillion in FY 1999;
- Contributing to the Administration's policy decisions to promote Social Security reform and Medicare reform;
- Providing increased financial assistance through the Community Development Financial Institutions (CDFI) Fund to improve the economies of distressed communities in FY 1999 to 125 CDFIs, receiving a total of $80.3 million, compared to 112 CDFIs receiving $46 million during FY 1998; and
- Providing effective oversight over the federally chartered national bank system and thrift institutions.

In the international arena, Treasury is the principal Cabinet agency charged with developing policies and guidance affecting international monetary affairs, trade and investment policy, international debt strategy, and U.S. participation in international financial institutions. Key accomplishments during the year include:

- Leading the international effort to stabilize Brazil's financial crisis in 1999 and endorsing a $40.5 billion emergency international support package for Brazil. The combined effort helped stabilize Brazil's economic situation, and allowed it to repay the U.S. $6 billion of $9.5 billion the U.S. loaned to Brazil.
- Proposing a new "Group of 20" (G-20) in which emerging market nations would participate with the industrialized nations of the G-7 to further increase economic coordination and cooperation among nations. Hence, 80 percent of the world's economic production and 65 percent of its population will be represented in global economic discussions.
- Negotiating, along with the U.S. Trade Representative, with Chinese leaders, who agreed to the conditions for China's membership, or accession, in the World Trade Organization (WTO). China's joining the WTO (probably in the coming year) will result in lowered trade barriers between China, the U.S., and other WTO members and a more global, integrated economy;
- Negotiating the Free Trade Area of the Americas, which will go beyond previous trade agreements to include Customs clearance procedures; and
- Monitoring Indonesia's economic developments and engaging with senior Indonesian economic officials to help resolve that country's serious financial problems.

Financial Mission: Manage the Government's Finances

As the primary fiscal agent for the Federal government, Treasury manages the Nation's finances by collecting taxes, tariffs and other debts, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet demand. Key accomplishments during the year include:

- Collecting a net total of $1.8 trillion from taxes, fees, duties, fines and penalties;
- Achieving electronic filing by a record setting 29 million individual taxpayers, 19 percent more than in 1998, using one of the three convenient e-file options: electronic filing through an IRS authorized Electronic Return Originator (ERO); On-line filing using home computers through a third party transmitter; or filing over the telephone using the TeleFile system;
- Increasing the percentage of revenue collected by the government through electronic means to 72 percent in FY 1999, from 68.5 percent in FY 1998, and electronically collecting 89.3 percent of corporate withholding taxes;
- Increasing Federal non-tax debt referrals to the Treasury Offset Program (TOP) from $16.9 billion in FY98 to $23.4 billion in FY99. Child-support debt referrals to TOP increased from $6.8 billion in FY98 to $47.2 billion in FY99;
- Collecting $2.6 billion of the Debt Collection Improvement Act (DCIA)-related debts during FY99, surpassing the targeted goal of $2 billion;
- Collecting $5.9 million in FY99 through the Treasury Offset Program (TOP), excluding Tax-Refund Offset (TRO), an increase of $2.2 million over the amount collected in FY98. Child support collections make up 16.9 percent of this total;
- Increasing the percentage of Federal payments made electronically from 63 percent in FY 1998 to 68 percent in FY 1999, resulting in estimated savings for the government, by reducing the number of check payments, of $10.3 million;
- Conducting 155 auctions for securities, receiving approximately $4.8 trillion in bids, and issuing approximately $2.1 trillion in securities. The Bureau of the Public Debt also exceeded its performance goal of announcing the auction results within one hour 90 percent of the time;
- Delivering a record 11.4 billion Federal Reserve Notes to the Federal Reserve System and 18.9 billion postage stamps to the U.S. Postal Service. This resulted in revenues of $567 million, another record; and
- Reducing the cost of circulating clad coinage by approximately 7.4 percent, and successfully implementing the new State Quarters Program.

Law Enforcement Mission: Protect Our Financial Systems and Our Nation's Leaders, and Foster a Safe and Drug-Free America

Treasury plays a critical role in Federal law enforcement efforts, helping foster a safer nation by protecting our borders, preventing drug smuggling, combating violent crime, suppressing counterfeiting, fighting money laundering, preventing financial crimes against the currency of the United States, and training the vast majority of Federal law enforcement personnel. Key accomplishments during the year include:

- Seizing or assisting in the domestic seizure of a total of $329.7 million in monetary instruments, which is about 18 percent above Customs goal of $280 million;
- Making 1,483 seizures totaling approximately $60.5 million in currency being exported illegally. Southwest border seizures increased from $14.4 million in unreported outbound currency in FY 1998 to $16.5 million in FY 1999;
- Seizing, or assisting in seizing, $30.4 million in real property in association with financial crime investigations;
- Seizing $126.6 million in counterfeit U.S. currency in foreign countries prior to circulation, a 57 percent increase over FY 1998. The Secret Service also suppressed 38 counterfeit plant

operations in foreign countries, a 31 percent increase over FY 1998;

- Increasing the Treasury Forfeiture Fund revenue to a total of $326.9 million in forfeited receipts, as compared to $278.9 million in FY 1998 and $260.5 million in FY 1997;

- Seizing another record quantity of 1,392,849 pounds of narcotics, up 207,554 pounds, or 17.5 percent, above Customs' FY 1998 seizures;

- Identifying, deterring, and stopping the sources of and participation in illegal firearms trafficking; speedily responding to law enforcement requests for gun traces; and removing violent offenders from our communities; and

- Continuing efforts by the Federal Law Enforcement Training Center and the U.S. Secret Service to provide law enforcement personnel with state-of-the-art knowledge and techniques used in the law enforcement profession.

Management Mission: Continue to Build A Strong Institution

Treasury continues its effort in improving both management operations and program performance, focusing on human resources management, financial management, information technology, and procurement, as well as improving customer service, fostering partnerships with customers and stakeholders, and modernizing Treasury operations. Key accomplishments and program initiatives during FY 1999 include:

- Taking advantage of private sector marketing expertise and state-of-the-art recruitment techniques, using the Internet, to improve the Department's capacity to attract and retain talented staff;

- Strengthening the Department's oversight of bureau operations with the new Performance Reporting System (PRS), which centralizes all of the information associated with its performance plans and performance reports;

- Installing a Department-wide data warehouse which captures financial data from all Treasury entities, and allows the timely analysis of bureau financial data;

- Continuing efforts to identify and correct program and financial management weaknesses;

- Continuing efforts to expand the pool of minority applicants by establishing partnerships with schools, including those having large minority populations, maximizing the use of technology (Internet and Intranet), and utilizing innovative outreach and recruitment methods;

- Making customer service improvement a Department-wide objective, and several bureaus, especially the Internal Revenue Service, have undertaken particularly noteworthy customer service improvement programs;

- Establishing the Treasury Investment Review Board (TIRB) to review capital investments in the context of the Department's business priorities and GPRA goals;

- Intensifying partnerships with regulated industries and businesses, labor unions, government agencies, and non-governmental agencies to gather expertise, information and resources to facilitate the effective delivery of services and programs;

- Increasing the Treasury Franchise Fund revenue by 72 percent, from $80 million in FY 1998 to $138 million in FY 1999, as well as increasing total assets by 42.9 percent, from $28 million in FY1998 to $40 million in FY 1999; and

- Drawing on the expertise of Treasury's Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) to assist the Department and its bureaus in identifying areas of improvement in program management and financial accounting and reporting.

ONGOING CHALLENGES

Although progress has been made in various Treasury programs and initiatives, we have identified several ongoing challenges which require the Department and bureau senior management's attention.

Overall Priorities

Treasury has organized its FY 2000 priorities into the following six broad objectives:

- Maintain fiscal discipline;
- Promote growth and economic development in the global financial system;
- Maintain a strong and healthy financial system;
- Ensure that low-income Americans share in the Nation's prosperity;
- Enhance the safety of our communities; and
- Continue management reforms within the Department.

In addition, the following management issues continue to be a challenge for the Department and its bureaus.

Internal Revenue Service Modernization and Restructuring

The Restructuring and Reform Act of 1998 (RRA 98) required significant changes in the Internal Revenue Service (IRS), and resulted in the development of a new mission statement for the IRS. A comprehensive blueprint of the new organization has been developed and IRS plans to have the modernized structure in place by year-end 2000. It is anticipated that the transformation of the IRS into an organization delivering world class customer service will take the better part of a decade.

IRS Federal Tax Receivables

Problems related to IRS Federal tax receivables continue to be an IRS and Departmental management priority. Striving to close the gap between tax revenue owed the government and the amount likely to be collected remains a major challenge.

Financial Management Weaknesses

Although Treasury has made good progress in resolving some of its financial management weaknesses, we are unable to provide reasonable assurance that the objectives of Section 4 of the Federal Managers' Financial integrity Act (financial management systems) have been achieved. Therefore, we are also not in substantial compliance with the Federal Financial Management Improvement Act.

Data and EDP Security

Data and EDP security in bureaus' automated systems continues to be an important issue for the Department. Financial statement audits at Treasury bureaus identified material weaknesses relating to internal controls over the data in the automated systems. Treasury's Chief Information Officer (CIO) has expanded oversight of bureaus on systems security issues to ensure that the corrective actions at each bureau are achieved in a timely manner.

Consolidated Financial Statements (CFS) for the Federal Government

A number of problems were identified in the audit of the fiscal year 1998 CFS, which resulted in a disclaimer of audit opinion from the GAO. Significant deficiencies in the agencies' financial systems seriously hampered Treasury's ability to obtain timely and reliable information for the Government-wide financial statements.

GAO reported that problems with fundamental record-keeping, incomplete documentation, and weak internal controls prevent the government from accurately reporting a large portion of assets, liabilities and costs.

While significant progress has been made, much work remains, especially in the areas of reconciliation of budgeted amounts with accrual amounts, and with the elimination of inter-agency transactions, which, due to the nature of individual appropriations, are difficult to identify.

Government Performance and Results Act (GPRA) Implementation

Challenges exist in integrating performance planning and reporting with budget formulation and execution, and annual financial reporting. Treasury must develop effective cost accounting so that programs and operations can be effectively evaluated from a cost/benefit standpoint. More work is still needed to refine strategic planning processes and in producing accurate and reliable data for performance measures.

Part 1

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

As a major policy advisor to the President, the Secretary of the Treasury has primary responsibility for formulating and recommending domestic and international financial, economic, and tax policy; participating in the formulation of broad fiscal policies that have general significance for the economy; identifying and collecting taxes and duties; and managing the public debt. The Secretary also oversees the activities of the Department in carrying out its major law enforcement responsibilities; in serving as the financial agent for the U.S. Government; and in manufacturing coins, currency, and other products for customer agencies.

This Management's Discussion and Analysis (MD&A) section of the Accountability Report provides readers with highlights of Treasury's many diverse programs by each of the four mission areas as articulated in the Treasury-wide Strategic Plan. The Government Performance and Results Act (Results Act) establishes formal requirements for strategic planning and performance measurement in the Federal government. Because of the complex nature of several Treasury bureaus, a bureau's activities may impact one or more strategic mission area and its related goals.

This MD&A also highlights Treasury's financial position at the end of September 1999 and the auditor's opinion on our FY 1999 financial statements. Selected program initiatives and activities for each of the four mission areas are presented by their goals and objectives as presented in the Department's Strategic Plan.

This report not only describes various accomplishments achieved by the Department during the fiscal year, but also addresses significant challenges facing the Department in the next fiscal year and future years. Some of these challenges have been identified by the General Accounting Office (GAO) as being high risks to the efficiency of Treasury management and the effectiveness of its programs. Plans for corrective actions to address these issues have been developed by the bureau management and are closely monitored by the Department.

TREASURY'S ORGANIZATION

In addition to the Department Offices, the Office of Inspector General, Treasury Inspector General for Tax Administration, Financial Crimes Enforcement Network, the Federal Financing Bank, the Exchange Stabilization Fund, the Community Development Financial Institutions Fund, and various other funds which together comprise Treasury "headquarters" operations, the Department also includes eleven bureaus: Bureau of Alcohol, Tobacco and Firearms; Office of the Comptroller of the Currency; U.S. Customs Service; Bureau of Engraving and Printing; Federal Law Enforcement Training Center; Financial Management Service; Internal Revenue Service; U.S. Mint; Bureau of the Public Debt; U.S. Secret Service; and the Office of Thrift Supervision.

MISSION

Because Treasury's responsibilities and activities are broad in scope and touch the lives of all Americans, we have developed a four-part mission statement which describes the purposes of our diverse functions. It includes three programmatic mission areas covering our **economic, financial, and law enforcement** responsibilities, and a fourth **management** mission area, because only a strong and efficient organization can succeed in accomplishing our programmatic goals.

Accordingly, the MD&A is structured to present program highlights by each mission area and its related goals and objectives. A summary of Treasury's financial position is provided for readers' convenience. The MD&A also addresses several ongoing challenges for the Department and its bureaus.

FINANCIAL STATEMENT HIGHLIGHTS

The financial statements contained in Part 2 have been prepared from the accounting records of Treasury in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, as amended. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by Treasury, pursuant to OMB directives that are used to monitor and control Treasury's use of budgetary resources.

These financial statements are provided to meet the requirements of the Government Management Reform Act. They consist of the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, the combined statement of financing, and the consolidated statement of custodial activity; all of which are prescribed by OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements, as amended.

While these financial statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

As in FY 1998, the Department received unqualified audit opinions on its FY 1999 revenue collection and debt management activities. However, continuing problems with the IRS administrative activities resulted in the overall qualified auditor's opinion.

The Department of the Treasury's financial statements reflect the entity activities of the Treasury, and certain non-entity functions it performs on behalf of the Federal government and others. Entity activities include appropriations and revenue Treasury received to conduct its operations. Entity related functions also include activities of Treasury's Exchange Stabilization Fund and the Department's Federal Financing Bank. Non-entity activities include the collection of Federal revenue, managing the Federal Debt, disbursing Federal funds, and maintaining certain assets and liabilities for the Federal government as well as for others.

Assets

Treasury's total assets as of September 30, 1999 were $5.8 trillion, which included $177 billion entity assets and $5.6 trillion non-entity assets. Non-entity assets included $5.4 trillion due to Treasury from the General Fund of the Federal Government to pay the principal on the public debt, as well as tax refunds.

Liabilities

Total liabilities as of September 30, 1999 were $5.7 trillion, which included $49 billion of liabilities covered by budgetary resources and $5.6 trillion not covered by budgetary resources.

Intra-governmental liabilities not covered by budgetary resources totaled $1.98 trillion, including interest payable, in borrowing from various Federal agencies. However, they do not include debt issued by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development. Liabilities not covered by budgetary resources also include Federal debt held by the public, including interest, totaled $3.6 trillion; the majority of these are Treasury marketable Notes and Bonds.

Net Cost of Treasury Operations

The net cost of Treasury operations totaled $10.6 billion for the year ended September 30, 1999. The majority of the costs are in the *Financial* mission, as Treasury is the primary fiscal agent for the Federal government in managing the Nation's finances by collecting revenue, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet demand.

Federal Debt Interest Costs

Treasury's Consolidated Statement of Net Cost includes $354.6 billion for interest on the Federal debt and other Federal costs, such as payments made to or by the Judgment Fund, the Resolution Funding Corporation, and the District of Columbia.

Custodial Revenue

Total net revenue collected by Treasury on behalf of the Federal Government for FY 1999 was $1.8 trillion. This includes various taxes, tariff duties, user fees, fines and penalties, and other revenue.

BUDGETARY INFORMATION

The following table provides additional budgetary information for the Department of the Treasury and its bureaus.

Fiscal Year 1999

Treasury Bureau	Appropriation Enacted (in Millions)	Full Time Equivalent Employees	Total Budget Resources (in Millions)	Total Outlays (in Millions)
Alcohol, Tobacco and Firearms (ATF)	$ 558	4,108	$ 688	$ 572
Office of the Comptroller of the Currency (OCC)	*	2,946	470	14
U.S. Customs Service (Customs)	2,101	19,632	3,737	2,141
Departmental Offices (DO) **	526	2,950	50,475	3,336
Bureau of Engraving and Printing (BEP)	*	2,489	665	(40)
Federal Law Enforcement Training Center (FLETC)	110	560	203	97
Financial Management Service (FMS)	197	2,043	12,016	10,110
Internal Revenue Service (IRS)	7,762	98,951	9,320	8,229
U.S. Mint	*	2,290	1,419	20
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	172	1,486	289,726	289,686
U.S. Secret Service (SS)	712	4,941	852	749
Office of Thrift Supervision (OTS)	*	1,266	297	-
TOTAL	**$ 12,138**	**143,662**	**$ 369,868**	**$ 314,914**

* These bureaus operate on self-supporting revolving funds, and do not receive appropriations.

** Departmental Offices also includes the Office of Inspector General, Treasury Inspector General for Tax Administration, Working Capital Fund, Exchange Stabilization Fund, Federal Financing Bank, Treasury Forfeiture Fund, Community Development Financial Institutions Fund, Financial Crimes Enforcement Network, DC Pension, and the Treasury Franchise Fund.

PROGRAM HIGHLIGHTS

Treasury focuses its resources on helping the Nation achieve a number of important public policy goals, including a healthy economy, voluntary compliance with the tax laws, and streets that are safe from illegal drugs and violent crime.

Treasury had many positive results during Fiscal Year 1999 that were in programs of particular importance to this Administration. Treasury continues to refine its performance measures, striving to present measures of program *results* rather than the traditional output-oriented or workload measures. As this iterative process continues, we recognize that many factors come into play in these areas, and that there are many other key contributors to success or failure. Treasury is in a position to influence, but not control, the final outcomes in many instances.

Economic Mission: Promote Prosperous and Stable American and World Economies

Treasury seeks to maximize the potential of the U.S. and world economies for growth and stability. In pursuit of this, the Secretary of the Treasury is the principal economic advisor to the President and plays a critical role in policy-making by bringing an economic and government financial policy perspective to issues facing the government.

In the domestic arena, Treasury develops policy and guidance affecting fiscal policy, financial institutions, financial regulation, and capital markets. In the international arena, Treasury is the principal Cabinet agency charged with developing policies and guidance affecting international monetary affairs, trade and investment policy, international debt strategy, and U.S. participation in international financial institutions.

This mission area is supported by programs managed by many of the Departmental Offices' policy offices, Office of the Comptroller of the Currency, Office of Thrift Supervision, Community Development Financial Institutions Fund, Bureau of the Public Debt, U.S. Customs Service's trade programs, and Bureau of Alcohol, Tobacco and Firearms' compliance program.

Goal: Promote Domestic Economic Growth

Treasury provides advice and assistance to the President in the areas of domestic finance, banking, and other related economic matters, including issues relating to financial institutions, federal debt finance, federal cash management, financial regulation, capital markets, and U.S. Government accounts and payments. Treasury plays a primary role in the formulation and review of Administration budget and economic policies, and contributes to the country's economic well being.

Objective: Balance the budget by 2002

The surpluses, in fiscal years 1998 and 1999, allowed Treasury to reduce the number of offerings for marketable debt, and in effect, reduced total debt owed to the public including interest, from $3.740 trillion in FY 1998 to $3.648 trillion in FY 1999. Ongoing fiscal responsibility and a strong economy have produced an improved budget outlook with growing unified budget surpluses.

Treasury worked closely with the White House, the Office of Management and Budget, the Council of Economic Advisors, and other executive branch agencies and offices to monitor economic outlook and policy issues, including the determination of the Administration's economic assumptions, development of Administration policies and policy positions, and evaluations of alternative policy proposals.

Objective: Promote long-term entitlement reform

Treasury contributed to the Administration's policy decisions to reserve budget surpluses for Social

Security reform, to run a balanced on-budget account, to transfer on-budget resources to the Social Security Trust Fund, and to invest a portion of the Trust Fund in equities. Treasury was also significantly involved in the development of the Administration's Medicare reform plan, released in June of 1999.

Objective: Improve retirement security and increase savings

Treasury developed many policy proposals to encourage workers and employers to increase pension saving and households to increase other saving from current income, including: coverage of lower-wage workers and Universal Savings Accounts; reducing expenses and complexity for small business retirement plans; accelerated vesting for matching contributions; enhanced retirement security for women; promoting IRS contributions through payroll deduction; and, promoting retirement savings education.

The **Bureau of Public Debt (BPD)** continued its efforts on a number of customer-oriented initiatives during FY 1999 to attract participation by a wide range of investors, and to encourage investments through new products and enhanced services.

Introduced in October 1998, the EasySaver plan simplifies savings bond purchases for individuals who buy bonds over-the-counter, or who do not have access to a payroll savings plan (employees of small businesses and retirees, for example). More than 10,500 individuals have established accounts to purchase more than 14,000 different bond inscriptions — 67 percent of which are scheduled for purchase every month. In FY 1999, EasySaver generated savings bonds sales of $5.4 million.

TreasuryDirect Electronic Services continue to be very popular with investors. TreasuryDirect is a book-entry securities system designed for investors who are not active traders and who want to hold securities directly with Treasury. Established account holders can simply call a toll-free number or go to BPD's web site to conduct a wide range of transactions from security purchases to address changes. Investors who owe BPD an account maintenance fee, now can pay it over the phone or on-line. By authorizing BPD to charge their account, investors need not make any other effort to pay the fee.

The savings bond home page is one of the most popular pages on BPD's web site; it received 850,000 hits last year and is the "front door" to more than 250 savings bond web pages. More than 210,000 savings bond forms were downloaded last year. New and improved features during FY 1999 included: online calculators that help investors plan for the future with savings bonds; downloadable redemption tables that provide values for all Series EE/E Bonds, I Bonds, and Savings Notes; HH/H Internet Services that allow owners to view their accounts to access a list of current holdings and interest payments, change the mailing address on their accounts, and view their 1099-INT tax statements for the current tax year; and the Savings Bond Wizard Program that enables owners to maintain an inventory of their bonds and to determine the current redemption value and earned interest. The Wizard is the most popular file on BPD's web site; it was downloaded more than 400,000 times in FY 1999.

BPD continued working with financial institutions and their software vendors to include savings bonds as a standard product offering in home banking programs. Four software vendors now include savings bond sales in their home banking systems. Combined, these vendors reach a community of more than 600 financial institutions. At the end of FY 1999, there were 79 banks in 26 states selling savings bonds on the Internet. BPD expects to see continued rapid growth in home banking sales during FY 2000.

Objective: Promote fair and efficient delivery of credit and other financial services and help bring residents of distressed communities into the economic mainstream

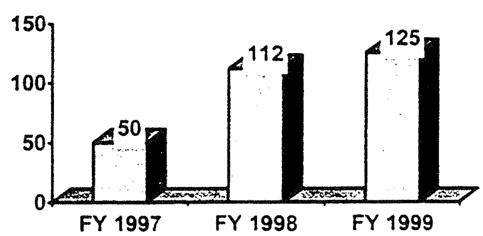
Treasury was instrumental in helping to launch BusinessLINC (Learning, Investment, Networking and Collaboration), a nationwide effort to encourage large businesses to work with and mentor small businesses, particularly those located in economically distressed areas. The Department also proposed a "New Markets Initiative" to increase the flow of private sector equity capital to inner-city and rural businesses, and to help provide these businesses with the technical expertise and business networks that they need to grow and succeed.

The mission of the **Community Development Financial Institutions (CDFI) Fund** is to provide access to capital and financial services, which helps alleviate poverty and ensure economic growth in America's most distressed communities. By investing in CDFIs and expanding financial service organizations' lending, investment, and services within under-served markets, the Fund helps create and retain jobs, develop affordable housing, revitalize neighborhoods, and build local economies. The Fund supports CDFIs and other members of the financial services industry that engage in community development finance, and this support ultimately increases access to capital within under-served communities.

The Fund's new FY 1999–2004 Strategic Plan sets forth a roadmap for cultivating a dynamic and vibrant community development finance industry. The plan identifies four programmatic goals: (1) strengthen and expand the financial capacity of CDFIs; (2) strengthen the organizational capacity and expertise of CDFIs to better serve their markets; (3) expand financial service organizations' community development lending and investments; (4) strengthen and expand the network of micro-enterprise development organizations and promote micro-entrepreneurship.

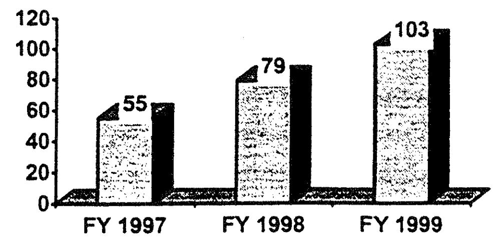
The number of certified CDFIs increased from 262 in 1998 to 334 in FY 1999. The total number of CDFIs receiving financial assistance increased significantly during FY 1999, and the Fund increased the total amount awarded to CDFIs from $46 million in FY 1998 to $80.3 million in FY 1999.

Number of CDFIs Receiving Financial Assistance



The number of insured depository institutions selected by the Fund received a total of $31.6 million in FY 1999 under the Bank Enterprise Awards Program. This is a 30.4 percent increase in selected awardees and a 12.9 percent increase in total amount awarded, compared to FY 1998.

Number of Bank Enterprise Awards Program Awardees



The Fund is developing a framework for long-term evaluation of the results, or outcomes, of CDFI awardees' work in their communities. Program evaluation will seek information regarding the accomplishments of Fund-assisted CDFIs and the outcomes of Fund assistance on an institution's capacity to serve its market. In FY 1999, the Fund also began to develop internal operating measures for various stages of the awards and disbursement process. These measures will be used for answering customer queries, evaluating the Fund's resource management efforts, and determining adequate levels of program management support.

The process of monitoring awards has been strengthened by the addition of an Awards Monitoring system that logs all reporting requirements and ensures they have been met by award recipients. The Awards Manager is responsible for determining if award recipients are delinquent in submitting required reports and, if so, for notifying them. The Awards Monitoring System includes a "Compliant Watch" for awardees that have been designated, through qualitative and quantitative reviews, for additional monitoring.

Objective: Promote the integrity and efficiency of the Nation's financial markets

The **Office of the Comptroller of the Currency (OCC)** is responsible for chartering, regulating, and supervising the national banking system.

Additionally, the OCC supervises the federally licensed branches and agencies of foreign banks. At the end of fiscal year 1999, there were 2,383 federally chartered national banks representing about 28 percent of the 8,621 commercial banks in the United States, compared to 2,519 federally chartered national banks that represented 29 percent of the 8,910 commercial banks in the United States during FY 1998. The national banking system had approximately $3.2 trillion in assets, accounting for about 59 percent of the commercial banking system assets. During the past several years, national bank assets have increased significantly, unlike earlier years that had periods of slow growth. Between 1995 and 1999, national bank asset growth averaged 8 percent on a fiscal year basis, in part through the conversion, merger, and acquisition of state and thrift institutions into the national banking system.

The OCC structure ensures that the agency keeps pace with the dramatic changes that have occurred, and will continue to occur, in the banking industry. Increased competition, advanced technologies, global expansion, and rising customer expectations have changed the banking industry's structure and nature. The OCC structure will help continue to improve its supervision of the national banking system and meet the needs of the banking industry and other external customers.

To ensure the safety and soundness of banks and their compliance with laws and regulations, the OCC conducts various on-site examinations on a 12 month or 18 month schedule. On a quarterly basis, between on-site "safety and soundness examinations," OCC examiners contact bank management and perform a financial analysis of each national bank. The purpose of the quarterly analysis is to analyze financial trends, determine any significant changes in the bank's risk profile, and follow up on any previously identified weaknesses.

During FY 1999, Year 2000 supervision activities continued to place a heavy draw on OCC supervisory resources. While the percentage of examinations conducted within Federal Deposit Insurance Corporation Improvement Act timeframes declined again in FY 1999 to 64 percent from 80 percent in FY 1998, 93 percent of the examinations were conducted within OCC internal guidelines.

The mission of **the Office of Thrift Supervision (OTS)** is to effectively and efficiently supervise thrift institutions to maintain their safety and soundness in a manner that encourages a competitive industry to meet America's housing, community credit and financial service needs, and to provide access to financial services for all Americans.

Under its primary statutory authority, the Home Owners' Loan Act (HOLA), OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes OTS to examine, supervise, and regulate state-chartered savings associations belonging to the Savings Association Insurance Fund, and provide for the registration, examination, and regulation of savings association affiliates and holding companies.

Both the thrift industry and OTS are in solid financial condition. The industry earned a record $7.6 billion during calendar year 1998 and had an aggregate return on average assets (ROA) of 97 basis points. During the first nine months of 1999, the OTS-regulated thrift industry earned $6.3 billion. ROA was 98 basis points in the third quarter, down slightly from 101 basis points in the second quarter. Despite rising interest rates, mortgage originations remained relatively strong during the third quarter, totaling $69.3 billion. Third quarter single-family home mortgage originations totaled $55.8 billion.

While the number of thrift institutions regulated by OTS declined to 1,111 at the end of the third quarter, down from 1,115 in the second quarter, total thrift industry assets continued to grow to $862.7 billion, up from $846.7 billion at the end of the second quarter. Sixteen thrifts left OTS jurisdiction during the third quarter, primarily through mergers and acquisitions. One small thrift failed, the first failure since 1996, and was acquired by a thrift holding company. Partially offsetting the departures were 12 new thrifts that were chartered by OTS in the third quarter; eight of these were start-up thrifts with the remainder converting from other charters. There were ten problem thrifts at the end of the third quarter, the same number as in the previous quarter.

During 1999, available OTS Information Systems (IS) examination resources were diverted to Y2K issues, including quarterly reviews of large service providers, and thrift institutions with complex information technology environments. Examination staff will be redeployed in 2000 to risk-focused IS examinations of service providers, software vendors, and thrifts.

Objective: Protect the public and prevent consumer deception in the alcohol, tobacco, firearms and explosive industries

One of the **Bureau of Alcohol, Tobacco and Firearms' (ATF)** objectives is to protect the public and prevent consumer deception in the alcohol, tobacco, firearms and explosive industries. ATF is the nation's expert on such legal consumer products as alcohol, tobacco, firearms and explosives. These products require special attention due to the important social consequences of misuse. This strategic goal is accomplished by:

- Ensuring that alcohol and tobacco commodities meet safety and product identity standards, and keeps ineligible or prohibited persons from entering the regulated industries;

- Ensuring compliance with laws and regulations through education, inspection and investigation. Inspections of firearms licensees focus on ensuring that firearms are properly accounted for. In the explosives industry, the emphasis is on safe and secure storage of explosives as well as accountability. Alcohol and tobacco inspections check on compliance with product and trade practice provisions. Education initiatives such as industry seminars are utilized in all industries; and

Informing the public by publicizing information on ATF policies and regulations, product safety and theft prevention using the Internet, trade publications, seminars and industry meetings and working in partnership with others to inform, advise, and educate the public.

Goal: Maintain U.S. Leadership on Global Economic Issues

Objective: Promote the implementation of sound economic policies in developing and emerging market economies

Treasury promotes sound economic programs and policies in developing and emerging market economies and countries that are transitioning from a government-controlled to market-based economy (mostly in Central and Eastern Europe, but also in Asia, Latin America and Africa).

In pursuing our foreign economic policy objectives with these nations, Treasury works closely with other Federal agencies and international financial institutions. Working with the Agency for International Development, Treasury gives on-site technical assistance and expert advice in tax, budget, financial institutions and banking, government debt issuance and management, and financial crimes enforcement. Treasury has over 40 resident advisors stationed in some 30 countries and provides intermittent assistance to another 10 countries.

Some accomplishments during FY 1999 include:

- Debt Relief - Heavily Indebted Poor Countries -- Treasury made an important contribution to the Administration's initiative to relieve or defer debt in forty-one heavily indebted poor countries of the world, mostly in Africa, to help them overcome crushing poverty. Treasury worked with international institutions, lenders in other countries, and non-governmental organizations to develop an economically sound proposal for the initiative. Congress approved the proposal and appropriated funds for the initial phase;

- Response to Natural Disasters and Conflicts -- Treasury strongly encouraged International Financial Institution (IFI) support through debt relief and disaster assistance to countries hit by natural disasters (Hurricane Mitch in Honduras and Nicaragua and earthquakes in Turkey) and to geographic areas recovering from major conflicts (Kosovo, Bosnia and East Timor);

- Brazil Financial Crisis -- Treasury led the international effort to stabilize Brazil's financial crisis in 1999. The Secretary endorsed a $40.5 billion emergency international support package for Brazil. This support, combined with Brazil's economic reforms and addressing its public financial problems, helped stabilize Brazil's economic situation;

- Asian Financial Crisis -- Treasury's leadership helped calm the Asian financial crisis of the past few years. Of the nations most affected by the crisis (Indonesia, Korea, Malaysia, the Philippines and Thailand), all but Indonesia have resumed positive economic growth. The recovery is also producing renewed East Asian demand for U.S. goods and services; and

- Indonesia -- Treasury closely monitored Indonesia's economic developments and has been closely engaged with senior Indonesian economic officials to help resolve that country's serious financial problems. Indonesia's outlook has greatly improved from a year ago. Its currency has stopped depreciating, inflation has remained under control, and the economy has stopped contracting.

Objective: Strengthen International Financial Institutions (IFIs) and support their efforts to promote sustainable economic growth, development and financial stability

Key players in helping achieve the U.S. strategic goal of global economic growth and stability are the International Financial Institutions (IFIs), such as the International Monetary Fund (IMF), Global Environment Facility (GEF), and the Multilateral Development Banks (MDBs) (such as the World Bank and regional development banks). For the U.S. to meet its international economic policy objectives, it's important that these institutions are strong and effective.

Treasury plays an important role in the IFIs. For example, the Secretary of the Treasury serves as U.S. Governor of the International Monetary Fund (IMF). Although the U.S. is a large shareholder in most of the IFIs, we do not control or direct their operations. Treasury does, however, work with other shareholders and outside interest groups to push for improvements and reform in the IFIs and to obtain agreement on U.S. objectives. Treasury encourages the IFIs to strengthen internal controls, including measures that would minimize misuse of the loans countries receive. Treasury encourages the IFIs to have greater openness and transparency in their finances and operations. Additionally, Treasury urges better coordination and cooperation between the IMF, the World Bank and regional development banks.

Highlights of FY 1999 performance include:

- Institutional Reform -- Treasury proposed a broad reform plan to improve IMF internal operations and cost-effectiveness. Also, the U.S. and other donors to the World Bank agreed on a strong set of recommendations to the Bank for more openness and transparency in procedures, a stronger link between lending allocations and performance of the recipient countries, and better cooperation between the World Bank and regional development banks. Treasury supported sound environmental policies by securing a strong reform agenda for the Global Environment Facility, including performance measurement and fixed fees for project implementation;

- Status of arrears -- An indicator of performance is the reduction in U.S. unpaid commitments, or arrears, to the Multilateral Development Banks (MDBs). In the FY 1999 budget, U.S. arrears were $335 million, down from $638 million in FY 1998. However, in the FY 2000 budget, U.S. arrears to MDBs are up to $450 million, reversing three years of progress in eliminating these unmet commitments; and

- Response to natural disasters and conflicts -- Treasury strongly encouraged IFI support through debt relief and disaster assistance to countries hit by natural disasters (Hurricane Mitch in Honduras and Nicaragua and earthquakes in Turkey) and to geographic areas recovering from major conflicts (Kosovo, Bosnia and East Timor).

Objective: Monitor the global economy and promote international economic leadership through cooperation on economic policy

The Secretary of the Treasury plays a leadership role in the global economy when he meets regularly with the finance ministers of the G-7 nations. This

"Group of Seven" industrialized nations (Canada, France, Germany, Italy, Japan, the UK, and the U.S.) work together to create a more secure, prosperous and democratic world though mutual trust, cooperation and assistance.

Significant Treasury accomplishments in 1999:

- International financial architecture -- In the wake of the Asian financial crisis that began in 1998, Treasury formed a special task force to develop U.S. proposals for reforming the international financial architecture. Task force recommendations were adopted almost in their entirety by the G-7 in its *Report of the G-7 Finance Ministers on Strengthening the International Financial Architecture,* and were endorsed by the G-7 leaders in June 1999. The recommendations include: stronger international financial institutions, a greater voice for emerging market nations, more openness and disclosure by governments and lending institutions, stronger lending regulations, shared responsibility for crisis management, and a framework for private sector participation; and

- G-20 -- Treasury proposed a new "Group of 20" (G-20) in which emerging market nations would participate with the industrialized nations of the G-7 to further increase economic coordination and cooperation among nations. Joining Canada, France, Germany, Italy, Japan, the UK and the U.S., are Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey and the European Union (EU is made up of 15 European countries). The G-20 met for the first time in December 1999 in Berlin. As a result, 80 percent of the world's economic production and 65 percent of its population will be represented in global economic discussions.

Objective: Facilitate legitimate trade, enhance access to foreign markets and enforce trade agreements

The U.S. strategic goal of opening world markets to increase trade will promote global prosperity, and prosperity will promote peace. As we integrate nations and people through trade, we invest in the future security of the U.S. and spread U.S. values. Treasury responsibility for achieving this objective is shared by the Undersecretary for International Affairs and the U.S. Customs Service.

Undersecretary for International Affairs -- The Undersecretary for International Affairs works with other governments and other Federal agencies such as the U.S. Trade Representative (USTR) to promote a strong and fully integrated international trading system. A strategy for opening world markets and reducing trade barriers is to expand World Trade Organization membership to emerging economic powers on a commercially meaningful basis. Treasury also works with the USTR to negotiate new agreements that liberalize trade.

Undersecretary for Enforcement/U.S. Customs Service -- The U.S. Customs Service administers and enforces trade agreements to ensure that all goods and persons entering and exiting the United States comply with U.S. laws and regulations. Customs uses innovative programs and targeted enforcement actions to increase compliance, works with industry partners to expedite the movement of cargo that's in compliance, and works with international trade organizations to standardize trade and customs data.

FY 1999 accomplishments include:

- World Trade Organization -- Treasury and the U.S. Trade Representative negotiated with Chinese leaders, who agreed to the conditions for China's membership, or accession, in the World Trade Organization (WTO). China's joining the WTO would result in lowered trade barriers between China, the U.S. and other WTO members and a more global, integrated economy;

- Not only will China's WTO membership contribute to the global economy and China's prosperity, it will give U.S. manufacturers and services better access to China's markets. The potential gains are enormous in having an enhanced trading relationship with China, which has one-fifth of the world's population. Treasury also negotiated with 11 other countries seeking admission to the WTO, to commit to market access in these countries for U.S. securities firms and U.S. banking;

- International trade forums -- Customs supported the Administration's trade efforts by participating in international trade forums. With the Trade Facilitation discussions at the 1999 WTO Ministerial Conference, which began the Seattle Round of Trade Negotiations, Customs promoted the move to more transparency in the procedural requirements for trade. This will promote efficiencies, such as the rapid release of goods through Customs; and

- Customs negotiations -- The negotiations of the Free Trade Area of the Americas, which began in the spring of 1999, will go beyond previous trade agreements to include Customs clearance procedures. Customs participated in the Asian Pacific Economic Cooperation (APEC) negotiations, the expansion of the Caribbean Basin Initiative, and in bringing African nations into the mainstream of market economies.

Objective: Help strengthen the stability and efficiency of global capital markets and promote a sound global policy framework for international investment.

Opening world markets to increase trade is a U.S. strategic goal. Our objectives are the free flow of capital worldwide, growth and greater efficiency in global capital markets, and greater international investment--particularly US investment abroad, but also foreign investment in the U.S. Other desired outcomes are strong global financial systems that are less vulnerable to crises.

FY 1999 accomplishments were:

- Financial Stability Forum -- Treasury had a significant role in the G-7 decision to create the Financial Stability Forum (FSF), which was convened in Washington in April 1999 and is a key part of Treasury's proposal to improve the global financial system or architecture. The FSF mission is to assess vulnerabilities affecting the international financial system, identify and oversee actions needed to address these vulnerabilities, and improve coordination among the various authorities responsible for financial stability; and

- Foreign Investment in the U.S. -- Treasury plays a lead role as Chair of the Committee on Foreign Investment in the U.S., a governmental function with the dual purpose of preserving the principles of an open U.S. investment policy while protecting our national security. In 1999, Treasury reviewed more than 70 foreign acquisitions of U.S. businesses.

Objective: Pursue exchange rate policies to promote world economic growth and financial stability

Global financial stability is in the U.S. national interest in this increasingly interdependent world, where one nation's financial crisis can have global consequences. Currency exchange rates are one factor that can affect not only travel and commerce, but also world financial stability and growth.

Treasury represents the U.S. internationally on monetary issues and has a key role in charting the course of international policy to promote a stable system of exchange rates and avoid currency crises that cause financial and economic disruptions. Treasury has primary responsibility for U.S. foreign exchange operations through the Exchange Stabilization Fund (ESF).

Treasury works with other countries to help them establish exchange rate systems that are appropriate, can command the trust of domestic citizens and foreign investors, accommodate regional and global integration, and remain resilient over time.

Some FY 1999 accomplishments:

- Exchange Stabilization Fund (ESF) -- As of September 30, 1999, the ESF had assets of almost $41.7 billion, an increase of $1 billion over the 1998 asset valuation. These assets enabled Treasury to deal with excessive fluctuations or significant deviations in currency values;

- Indonesia -- Treasury officials closely monitored Indonesia's economic developments and were closely engaged with senior Indonesian economic officials to help resolve their currency devaluation and other serious financial problems. Indonesia's outlook has greatly improved from a year ago. The currency has stopped depreciating, inflation has remained under control, and the economy has stopped contracting.

Treasury took the lead in getting the IMF to request that the Indonesian government take steps to end the bloodshed in East Timor and to release a report on the Bank Bali scandal. These steps helped restore the foreign investor confidence essential to resolving the country's financial problems and stabilizing its economy;

- Foreign exchange rates -- Major foreign exchange rates did not fluctuate significantly against the U.S. dollar in 1999. Treasury continually monitored the value of U.S. currency against the currencies of our major trading partners and other countries and prepared analyses of market developments, risks and vulnerabilities;

- Bosnia -- Insufficiently developed domestic financial systems, inappropriate exchange rate systems, or regimes, may hold enormous risks for emerging market economies, such as Bosnia. Treasury played a lead role in achieving widespread acceptance of the new Bosnian national currency; and

- IMF Policies -- Treasury urged the International Monetary Fund to identify inconsistencies in various countries' exchange rate policies that could destabilize currencies and to encourage those countries to change their policies before they created a crisis.

Financial Mission: Manage the Government's Finances

This mission area covers Treasury's role as the primary fiscal agent for the Federal government in managing the Nation's finances by collecting taxes, tariffs and other debts, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet demand. The bulk of the Department's resources are devoted to collecting taxes and customs duties, since Treasury collects the vast majority of the total receipts for the Federal government.

The Internal Revenue Service is the primary tax collecting agent; the U.S. Customs Service and the Bureau of Alcohol, Tobacco and Firearms also collect billions of dollars in revenue each year. The Financial Management Service oversees, accounts for, and reports on government collections and expenditures, and is responsible for collecting delinquent non-tax debt for the Federal government. The Bureau of the Public Debt borrows what is necessary to meet the monetary needs of the Federal government at the lowest possible cost over the long-term. United States coins and currency are produced by the U.S. Mint and the Bureau of Engraving and Printing.

Goal: Collect Revenue Due to the Federal Government

To ensure Treasury collects the maximum revenue that is due to the Federal government, efforts are focused on improving and simplifying tax laws and administrative guidance, encouraging tax and trade law compliance, modernizing collection systems, and improving both tax and non-tax collections.

Objective: Improve and simplify tax laws and administrative guidance, consistent with other important tax policy goals

In its efforts to simplify and improve taxation, Treasury's **Office of Tax Policy**, in collaboration with the Internal Revenue Service, annually identifies and publishes a list of tax guidance priorities to identify projects for completion each year. These projects are identified in response to newly enacted legislation, court opinions, changes in the market, changes in taxpayer behavior, and comments from taxpayers or their representatives. The Guidance Priorities List (GPL) ensures that resources for published guidance focus on the highest priority projects. The GPL also serves as means of communicating guidance priorities to taxpayers. As a result of this process a total of 405 items of published guidance were issued in FY 1999. Tax Policy was also instrumental in a study to estimate the burden imposed on taxpayers in complying with aspects of tax law so that future laws and regulations can be developed with an eye to reducing burden.

Objective: Modernize Internal Revenue Service information technology to increase timeliness and accuracy of processing

The **Internal Revenue Service (IRS)** collected $1.9 trillion in gross tax revenue and issued $185 billion in refunds for the Federal Government. IRS continues its efforts to make it easier for taxpayers to file their tax returns, to develop tax forms that are easier to understand and prepare, to provide access to alternative means of filing such as home computers or telephonically, and to provide access to authoritative guidance through the IRS' award winning Internet site.

The mission of IRS' Electronic Tax Administration is to revolutionize how taxpayers transact and communicate with the IRS. In FY 1999, a record setting 29 million individual taxpayers, 19 percent more than in 1998, filed tax returns using one of the three convenient e-file options. Over 21 million taxpayers filed their tax returns electronically through an IRS authorized Electronic Return Originator (ERO), a 19.9 percent increase over the same period last year. On-line filing skyrocketed as over 2.4 million taxpayers filed their tax returns on-line via their home computers through a third party transmitter, an increase of 161 percent over last year. Almost six million taxpayers filed their returns over the telephone using the TeleFile system. Also, over 106,000 taxpayers filed both their federal and state returns in a single telephone call during the pilot of the Federal/State TeleFile option.

Two pilot programs provided a paperless filing experience for over one million taxpayers. These pilots involved the use of Personal Identification Numbers (PIN's) as the taxpayer's signature. More than 659,000 taxpayers participated in the on-line Signature Pilot, in which the IRS distributed e-file Customer Numbers to taxpayers who prepared their own returns, using tax preparation software to file from their home computers. Approximately 500,000 taxpayers participated in the Practitioner Signature Pilot in which taxpayers selected a PIN when filing through 2,500 participating practitioners.

Also new for 1999, taxpayers filing balance due returns had several options for not only filing electronically, but making electronic payments as well. More than 76,000 taxpayers filing balance due returns paid with an Automated Clearing House (ACH) debit as part of their electronic return. Taxpayers could file early and have the debit occur as late as April 15. Another 53,000 taxpayers paid their taxes due with credit cards, while participating in one of two credit card pilots that the IRS conducted. Under the first pilot, payments of taxes due using credit cards are processed over the telephone. In the second pilot, individuals used commercial tax software to e-file from their computers, and used a credit card to pay the balance owed to the IRS.

A wide range of electronic filing and payment options also was available to businesses in 1999. Taxpayers deposited more than $2.8 trillion electronically since the government established the Electronic Federal Tax Payment System (EFTPS) in November 1996. In excess of 2.6 million businesses are now enrolled in the Hammer Award winning EFTPS system that allows taxpayers to make their federal tax deposits over the telephone or using a personal computer, thus eliminating the need for paper deposit coupons, checks, or trips to the bank. During calendar year 1998, more than 756,000 quarterly employment tax returns were filed over the telephone by small businesses, in addition to the approximately 953,000 Forms 941, Employers Quarterly Tax Return, that were filed electronically by payroll service providers. For calendar year 1999 filings, receipts are expected to increase to more than 979,000 returns and more than 1.3 million forms respectively. Under the Simplified Tax and Wage Reporting System (STAWRS), the IRS, other federal agencies, and states are working to reduce employer burden by conducting single point filing projects in the states of Iowa and Montana, establishing a Harmonized Wage Code database, and improving customer service.

Objective: Increase compliance with tax and trade laws

The **Internal Revenue Service (IRS)** offers installment agreements to encourage payments of delinquent taxes. To improve the collection of individual delinquent taxes, under the On-line Installment Agreement method, delinquent taxpayers meeting IRS criteria are allowed to use the web to initiate a payment agreement on overdue taxes. This application was designed to complete the agreement with secure taxpayer data on the taxpayer's personal computer, not on the IRS Internet site. The taxpayer then has the option of printing, signing and faxing or mailing the completed agreement to the IRS at the address provided. Taxpayers still have the option of coming to an office to make agreements but this online option will significantly reduce the walk-in taxpayer service traffic and telephone time devoted to installment agreements.

Despite significant changes in taxpayer demand, hours of operation, staffing and telephone technology during FY 1999, the accuracy rate of 74.1 percent by Customer Service for tax law inquiries on toll-free calls did not meet the planned target of 85 percent. This is a new performance measure established for FY 1999.

The impact of the IRS Restructuring and Reform Act of 1998 (RRA 98) on collection activities has been extensive, establishing new taxpayer rights and protections and changing many areas of the collecting process. IRS increased its outreach efforts to educate taxpayers and practitioners on the Offer in Compromise program. IRS revised the offer form and instruction booklet to make them more understandable, available on the Internet, and created an additional basis for compromise. These enhancements resulted in a more visible program, thereby increasing use of the program by taxpayers to satisfy their tax obligations.

Redesign of the "collecting process" efforts, which are expected to positively affect taxpayers, are in high gear. The areas of emphasis for the redesign include: (1) expanding the streamlined installment agreement, (2) providing direct debit for installment agreements with a reduced user fee, (3) implementing a twelve month installment agreement, (4) expanding case resolution authority for currently not collectible accounts, (5) centralizing the offer in compromise program, and (6) developing a prototype for a "mentor and monitor" program for employers.

IRS also developed an Interim Compliance Strategy, which is a critical component of a balanced enforcement program that is designed to promote tax compliance, address emerging areas of fraud, and support national crime initiatives

The **Bureau of Alcohol, Tobacco and Firearms (ATF)** collected $12.1 billion dollars, before refunds, in taxes, interest, penalties, and fees in FY 1999, on alcohol and tobacco products, firearms and ammunition. One of its goals is to maintain a sound revenue management and regulatory system that continues reducing taxpayer burden, improves service, collects the revenue due, and prevents illegal diversion. ATF's revenue management program also includes on-site inspections of those who pay alcohol, tobacco, firearms, and ammunition excise taxes, and focuses on facilities posing the greatest risk to revenue loss based on the volume of operations, past history of violations, relative strength of management controls, and financial condition.

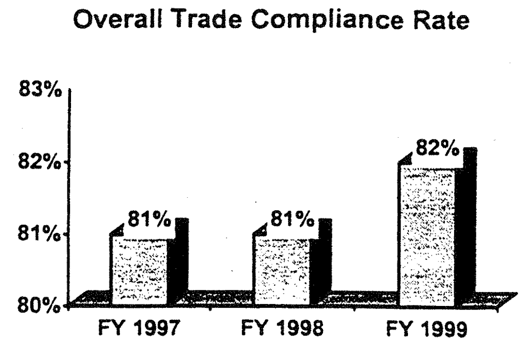
During FY 1999, the National Revenue Center (NRC) in Cincinnati, Ohio, continued to consolidate business processes, including audits of tax returns and reports, audits of claims, collection actions, review and approval of applications for permits, registration of plants and surety bonds, and maintaining custody of official case files. The NRC also implemented a document and imaging workflow management system to reduce the volume of paper files and to improve the access to vital information.

ATF is engaged in an ongoing effort to reduce a rising trend in the illegal diversion of cigarettes and distilled spirits products. Diversion activity generally occurs when legally manufactured or produced alcohol and tobacco products deviate from their normal legal distribution method to an illegal unregulated scheme. In the illegal schemes, the products are being diverted and sold in violation of federal laws and regulations. Diversion activities also defraud the United States of tax revenue.
The seizures of cash, vehicles, beverage alcohol, and tobacco products during diversion investigations by ATF agents and inspectors in 1999 has resulted in over $1.4 million being credited to the Treasury Asset Forfeiture Fund. ATF was also one of the lead agencies in a federal investigation that resulted in a payment of $10 million to the Treasury Asset Forfeiture Fund from a company wholly owned by a major United States cigarette manufacturer for their involvement in illegally diverting cigarettes to Canada.

The **U.S. Customs Service (Customs)** administers the U.S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across our borders, and assessing and collecting duties, excise taxes, and fees on imported and exported goods and services. In FY 1999, Customs collected $22.1 billion and $21.9 billion of this was provided to Treasury to fund other agency programs. Of the remaining $182 million, Customs provided $63 million to the Puerto Rico and Virgin Islands governments, transferred $67 million directly to other federal agencies, and retained $52 million to offset various program costs allowed by law and regulation.

In supporting Treasury's objective to increase compliance with tax and trade laws, Customs continued its efforts to modernize its commercial systems and improve its efforts to educate companies on importing and exporting cargo and merchandise in conformity with existing laws and regulations. One of the major features of achieving informed compliance is by issuing binding rulings primarily on such subjects as tariff classification, customs valuation and country of origin. All these rulings are available to the public on the Customs web site in order to assist importers in correctly entering their merchandise. In the outbound (export) arena, Customs continued its aggressive outreach efforts to heighten the trade community's knowledge of export laws, rules and regulations, and port procedures for all methods of transportation.

Customs continues to make progress in raising overall trade compliance. The overall letter-of-the-law compliance for FY 1999 is 82%. This represents an increase of 1% over the final FY 1998 compliance rate of 81%. At an 82 percent compliance rate, 25 million of the 30 million entry lines were compliant. A trend analysis using compliance data from FY 1995 to the present indicates that Customs will reach the overall trade compliance goal of 90% by FY 2004.

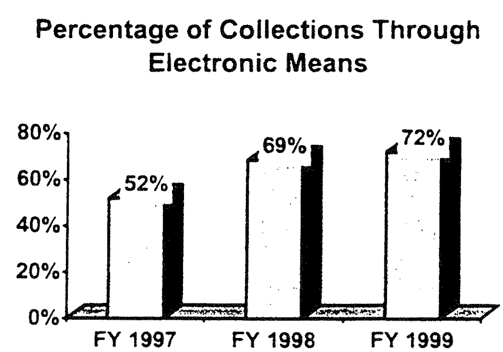


One of Customs' goals was to collect 75 percent of its FY 1999 revenue through electronic means. Customs exceeded its goal by electronically collecting 80.1 percent of its revenue primarily through the use of Automated Clearinghouse (ACH), On-Line Payment and Collection (OPAC), and Fedwire. The total amount of collections received via electronic means during FY 1999 exceeded $18.3 billion.

ACH is used to process collections received from the trade community; OPAC is used to process collections from other government agencies; and Fedwire is used to process credit card and excise tax collections. The number of ACH participants increased from 6,430 in FY 1998 to 7,343 in FY 1999, and the total collections through ACH also steadily increased from $16.4 billion in FY 1998 to $16.7 billion in FY 1999.

The **Financial Management Service (FMS)** also managed the deposit mechanisms for collecting approximately $1.9 trillion of revenue in FY 1999 for the Federal government.

Continuous efforts taken by FMS in working with other Federal agencies and the private sector resulted in an increase in the percentage of collections through electronic means from FY 1998.



Objective: Improve Federal non-tax debt collection

Another important Treasury objective is to improve Federal non-tax debt collection. Under the authority provided in the Debt Collection Improvement Act of 1996 (DCIA), **Treasury's Financial Management Service (FMS)** provides debt collection services to Federal agencies, collecting delinquent debts owed to the U.S. government. FMS provides these services through a network linking its own debt collection expertise and capabilities with those of FMS' financial centers, federal program agencies' debt collection programs, private collection agencies, and the U.S. Department of Justice.

This effort is supported by two programs at FMS. One, Federal agencies refer their non-tax debt that is more than 180 days delinquent to the FMS for collection under the Cross-servicing Program. Federal agencies retain responsibility for reporting the debts on the Report on Receivables Due from the Public. In order to effectively collect the debts that agencies refer, FMS employs a variety of collection mechanisms, including demand letters, follow-up telephone calls, skip tracing (i.e., locating debtors), administrative offset including tax refund offset, administrative wage garnishment, and private collection agencies.

The second program, the Treasury Offset Program (TOP), is a centralized offset program developed by FMS and operated through its Regional Financial Centers (RFCs). TOP is designed to assist agencies in the collection of delinquent debts, including non-tax debt and child-support obligations. FMS maintains a database of delinquent debtor records referred from Federal agencies. FMS also manages the systems that annually produce in excess of 870 million payments on behalf of over 400 federal agencies, totaling more than $1 trillion dollars. TOP enables the RFCs to match delinquent debtor files against payment files. When a match occurs, the payment is intercepted and the payment is offset, wholly or partially, up to the amount of the debt.

FMS is also reviewing eligible debt to ensure that debts eligible for referral are also collectible. At present, approximately 26 percent of the eligible debt is not collectible, due to the age of the debt, deaths of debtors, and other factors. 78 percent of eligible referrals have been transferred to TOP. 43 percent of eligible debts have been referred to Treasury for cross-servicing.

Following the successful January 1, 1999 merger of the Tax Refund Offset Program (TRO) into TOP, 31 Federal agencies currently participate in TOP, and all 50 states and U.S. territories now submit child-support debt for offset. Federal non-tax debt referrals to TOP increased from $16.9 billion in FY98 to $23.4 billion in FY99. Child-support debt referrals to TOP increased from $6.8 billion in FY98 to $47.2 billion in FY99.

All non-tax debt collections through the TOP and cross-servicing programs exceeded FY99 goals. Total collections for DCIA-related debts for FY99 were $2.6 billion, surpassing the FY99 goal of $2 billion.

The Treasury Offset Program (TOP), excluding Tax-Refund Offset (TRO), collected $5.9 million in FY99, an increase of $2.2 million over the amount collected in FY98. Child support collections make up 16.9 percent of this total. The trend shows a consistent growth throughout the fiscal year, which is expected to continue. Total collections through TOP, since enactment of the DCIA, are $10.2 million. The TRO collections for FY99 were $2.6 billion, an increase of $572.2 million over the amount collected in FY98. Child support collections make up 51.6 percent of this total.

Cross-servicing collections for FY99 were $23.5 million, nearly three times greater than the $9.8 million collected in FY98. Since enactment of the DCIA, cross-servicing collections have totaled $34.1 million. The total value of repayment agreements with delinquent debtors since program inception is $106.8 million.

Continuing its educational outreach efforts, FMS sponsored conferences, both to educate representatives from agencies and States on the TOP process, and to enhance cooperation between Federal and state agencies. FMS worked particularly closely with the Departments of Housing and Urban Development, Agriculture, and Health and Human Services, to increase Federal program agency debt referrals to Treasury. Each of these agencies referred more debt to Treasury in FY99 than in any previous year.

The success of Treasury's debt collection programs depends on providing debt collection and debt management services to all federal agencies, protecting the financial interests of the American taxpayer, and leading the development and implementation of government-wide debt management policies. Since the enactment of the DCIA, both the number of eligible delinquent debts referred to Treasury for collection and the amount of debt collected have steadily increased. FMS plans to further increase cross-servicing referrals by assisting agencies in eliminating barriers to debt referral and by working with the agencies to develop and adopt improved debt collection techniques which include target dates for referral of debts more than 180 days delinquent. Treasury recognizes that it might continue to face legal challenges and possible litigation as a result of exercising its authorities to enforce collection of debts owed to the government. In addition, FMS anticipates significant congressional interest in specific benefit payment offset issues.

Goal: Manage the Federal Government's Accounts

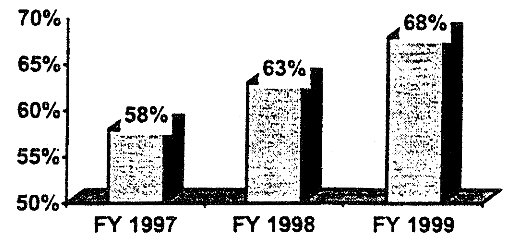
Objective: Ensure all Federal payments are accurate and timely

The mission of **the Financial Management Service (FMS)** is to provide central payment services for all Executive agencies, operate the Federal Government's collections and deposit systems, provide government-wide accounting and reporting services, and manage the collection of delinquent debt.

To ensure all Federal payments are made accurately and timely, FMS implements payment policy and procedures for the Federal government, issues and distributes payments, promotes the use of electronic mechanisms in the payment process, and assists agencies in meeting Electronic Funds Transfer (EFT) requirements of the DCIA. FMS managed the systems that produced in excess of 870 million payments, totaling more than $1 trillion dollars, for all executive agencies except the Department of Defense, the U.S. Postal Service, the U.S. Marshals Service and certain government corporations.

Although the 68 percent of payments and associated information made electronically fell slightly short of the 69 percent targeted goal for FY 1999, there was a continuous increase from previous years. The FMS estimated the government's savings of $10.3 million in FY 1999 by reducing the number of check payments.

Percentage of Payments made Electronically



Objective: Ensure that the government's cash management minimizes risk and provides immediate flow and balance information

This objective was accomplished by effectively controlling cash and credit management activities for the Federal government, and for improving the movement of Federal Funds with a daily cash flow of more than $10 billion. This includes establishing standards for and ensuring that effective financial management techniques and mechanisms are utilized by all agencies and departments, and providing continuing liaison between Treasury and agencies and departments on all aspects of financial management.

Objective: Provide accurate and timely financial information and support the government-wide implementation of accounting standards

FMS continues its effort to provide accurate and timely financial information on the Federal government. This includes managing the Federal central accounting functions, and preparing the government-wide consolidated financial statements in accordance with the accounting standards established by the Federal Accounting Standards Advisory Board. FMS also provides payment and collection information to other Federal agencies by a series of daily, monthly, quarterly, and annual government-wide reports and by working directly with agencies to help reconcile reporting differences.

Objective: Strengthen the government's financial infrastructure to improve the efficiency of program management across government

To achieve this objective, Treasury performs these critical responsibilities:

- Providing government-wide accounting and reporting services;
- Compiling and publishing government-wide financial reports;
- Operating the government's collection and deposit systems;
- Providing central payments services for most Executive Branch Agencies;
- Processing and resolving claims on all lost, stolen, and forged payments;
- Overseeing the government's daily cash flow;
- Managing government-wide debt collection services; and
- Providing government-wide policy and assistance for cash and credit management.

In FY 99, FMS successfully partnered with the Federal Reserve Bank of San Francisco (FRB-SF) to combine the Tax Refund Offset Program with the Treasury Offset program to collect delinquent debt. This partnership continues to grow with the development of programs to offset government payments for Social Security and federal employee salaries and to collect tax debt. FMS also is partnering with Federal Reserve Banks to improve the systems for making "payments" between Federal agencies and for processing claims for lost or stolen government checks.

FMS continues to implement new program systems, such as PACER On-Line, Digital Check Imaging, CA$H-TRACK, and complete major systems enhancements for the CP&R and TRACS to improve government-wide accounting and financial operations. FMS developed an Internet application and implemented an electronic commerce application that allows vendors receiving Federal payments to access critical invoice information. This use of the Internet is very successful and well received by both Federal agencies and vendors.

FMS continued to implement Electronic Data Interchange (EDI) as a payment alternative in partnership with 16 Federal agencies. In addition to the payment, EDI permits the transmission of supporting information (e.g., invoice details). Approximately 250,000 transactions ($2 billion in payments) with 1,800,000 addenda records were processed during FY 1999.

FMS managed the processing of $1.97 trillion in Federal revenues, which include corporate and individual income taxes, customs duties, and Federal fines. FMS continued working with other Federal agencies to increase the percentage of revenue collected electronically. The percentage of revenue collected through electronic means increased to 72 percent in FY 1999, from 68.5 percent in FY 1998, and 89.3 percent of corporate withholding taxes were collected electronically. Both of these percentages fell short of the targeted goals for FY 1999 due to Congress raising the mandated threshold from $50,000 to $200,000 in annual tax liabilities to be paid electronically and a number of actions taken by the IRS. In addition, there was a delay in introducing an option to pay taxes electronically via the Internet, and diversion of resources to focus on Y2K priorities.

Goal: Cost-Effectively Finance the Federal Government's Operations

Objective: Finance the Federal government in the most cost-effective manner over the long term

As the **Bureau of the Public Debt (BPD)** fulfills its mission of borrowing the money needed to operate the Federal Government and accounting for the resulting debt, BPD is constantly exploring ways to accomplish its goals more efficiently. Making its systems work more effectively and delivering exceptional customer service were at the core of many Bureau activities during FY 1999.

As the Treasury Department entered an era of Federal Government budget surpluses, BPD began looking at ways to "buyback" marketable securities. Budget surpluses, which allow the Federal Government to pay down debt held by the public, do present challenges to Treasury's debt managers and operations staff. The surpluses in fiscal years 1998 and 1999 allowed Treasury to reduce the number of offerings for marketable debt, and in effect, reduced total marketable debt from $3.695 trillion in FY 1998 to $3.648 trillion in FY 1999. Over the past two years Treasury Debt managers adjusted the market financing schedule to reduce the number of offerings of notes and bonds, while keeping issue sizes large enough to foster market liquidity.

After surveying TreasuryDirect customers and considering feedback from savings bonds customers, BPD continued to expand the information on its web site and to offer new electronic services to the customers. To improve operational efficiency, BPD began consolidating the 37 TreasuryDirect servicing sites into just three locations with modern call centers.

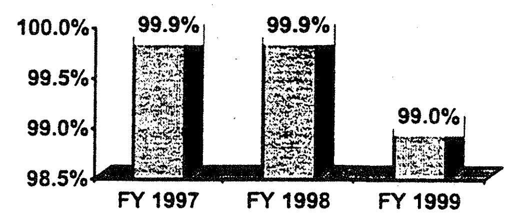
BPD promoted EasySaver by distributing brochures and information to current over-the-counter purchasers, retirees, and small business employees. BPD also distributed inserts with Federal income tax refunds, placed public service advertising, and obtained extensive news coverage on the plan.

Customer service has taken on a new dimension in terms of e-mail. Nearly every page on BPD's web site provides an e-mail link inviting inquiries. Customer Service Representatives responded to nearly 20,000 e-mail messages about savings bonds in FY 1999. Every response went out within two business days!

BPD also introduced a new browser-based alternative to the software that allows banks and securities dealers to bid electronically. This new alternative enables the submission, receipt, processing, and storage of tenders originating from auction participants. As of August 1999, approximately 64 bids were submitted using this alternative, and BPD expects that number to expand rapidly.

BPD established a performance target of 95 percent for issuing over-the-counter savings securities within three weeks. Bonds are sold over-the-counter at more than 40,000 locations nationwide, processed at five regional centers, and then mailed to the bond owners.

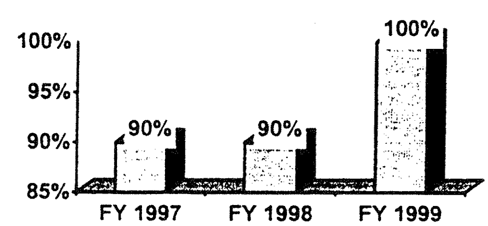
Percentage of Over-the-Counter Savings Securities Issued Within Three Weeks



In FY 99, BPD conducted 155 auctions, received approximately $4.8 trillion in bids, and issued approximately $2.1 trillion in securities. Inaccurate calculation of the auction results or delays in releasing the auction results could threaten the public's confidence in the auction process. BPD does everything possible to maintain public confidence because declines in public confidence could result in higher costs for taxpayers in financing the national debt.

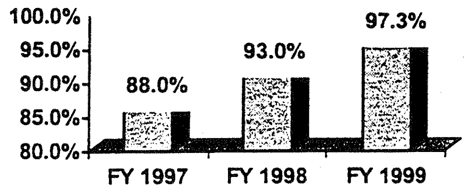
BPD established the following performance measure to gauge how well it fulfills the borrowing mission by announcing auction results within one hour at least 90 percent of the time.

Percentage of Auction Results Announced Within 60 Minutes

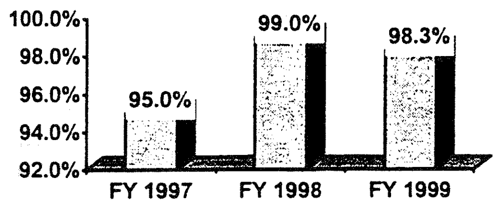


BPD also established the following two measures to evaluate the percentages of customer service requests completed within four weeks for savings bonds and within three weeks for marketable securities. The FY 1999 performance goal for savings bonds was 90 percent, and the goal for marketable securities also was 90 percent.

Percentage of Customer Service Requests Completed Within 4 Weeks (Savings Bonds)



Percentage of Customer Service Requests Completed Within 3 Weeks (Marketable Securities)



Goal: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coin and Currency

Objective: Increase the productivity of coin and currency manufacturing

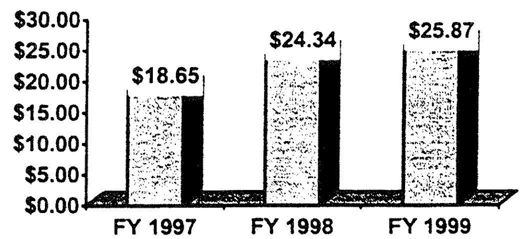
The mission of the **Bureau of Engraving and Printing (BEP)** is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies they serve. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require counterfeit deterrence.

For BEP, 1999 was a year of record currency demand and surging productivity. Overall productivity and postage productivity increased 16 and 28 percent, respectively, while currency productivity increased by 13 percent. BEP delivered a record 11.4 billion Federal Reserve Notes to the Federal Reserve System and 18.9 billion postage stamps to the U.S. Postal Service. This resulted in revenues of $567 million, another record.

In 1999, the manufacturing costs for both currency and the 100-stamp coil with pressure sensitive adhesive (PSA) were below projected standard costs.

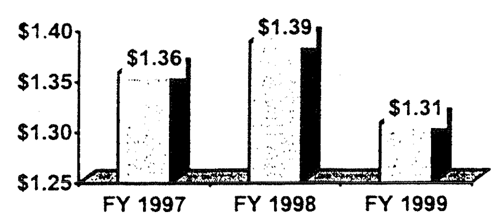
With respect to currency, this was due to lower than anticipated spoilage and improved ink mileage. The projected costs for FY 1999 was $26.50 per 1,000 notes.

Manufacturing Cost for Currency (cost per 1,000 Notes)



Manufacturing costs for the 100-stamp coil were below standard due to increased productivity and decreased spoilage that resulted from longer production runs. The projected costs for FY 1999 were $1.43 per 100-stamp coil.

Manufacturing Cost for Stamps - 100 Stamp Flag Coil (Cost per 1,000 Stamps)



The mission of the **U.S. Mint** is to produce the Nation's circulating coinage, to manufacture and market coin and medal products worldwide, and to safeguard the nation's bullion reserves at Fort Knox and elsewhere. The Mint has identified the following three major functional lines: production of circulating coinage and shipment to the Federal Reserve Banks; production of the Mint's numismatic products; and protection of the nation's gold and silver reserves.

numismatic products; and protection of the nation's gold and silver reserves.

Each year, the Mint's goal is to achieve and maintain inventory levels within prescribed maximum and minimum levels 100 percent of the time. These levels are based upon expected demand from the FRBs, estimated using several factors including the economy, seasonal spending patterns, and savings trends. However, forecast models must be used to anticipate demand into the future and economic reality may not always mirror those projections. Therefore, it is natural that the Mint will occasionally experience short-term shortages or surpluses in inventory levels.

The overwhelming enthusiasm for State Quarters produced under the new "Q50" program challenged the Mint's procurement, production, and distribution capabilities during FY 1999. The Q50 program, coupled with unexpected demand for all denominations of coins, caused the Mint's ability to meet its minimum inventory levels to decrease to 42.3 percent, from 81.8 percent in FY 1998. As a result, the Mint began accelerating its capital improvement program to deploy more and higher speed manufacturing equipment and technology.

The Mint established a new performance measure to indicate the cost-efficiency of its production of circulating clad coinage in FY 1999. The Mint was able to produce circulating clad coinage at approximately 7.4 percent less in FY 1999, at the average cost of $31.27 per 1,000 units of circulating clad coinage (including metals), than the anticipated cost of $33.84. Several factors contributed to Mint's success. First, the Mint was able to leverage efficient procurement practices with favorable market conditions to achieve lower metal costs. Second, the proliferation of demand for the 50 States quarters allowed the Mint to spread fixed costs over a larger base, thus lowering the overall cost per coin.

As the cost of coin production can also vary by denomination and mix of pennies to clad coins, the Mint measures the cost of pennies separately. Since pennies and clad coinage are usually produced on different machines with different blanking support processes, the Mint can better observe cost trends by separating penny and clad coin production costs in this measure. This is a new performance measure for FY 1999.

The Mint did not achieve the same economies on pennies as were recognized on clad coin production. Although the Mint exceeded the anticipated average cost of $7.69 per 1,000 units of circulating pennies (including metals) (the actual cost for FY 1999 was $8.35), the Mint is confident that it is still on target for reaching its goal of, by 2003, reducing the average unit cost of circulating coinage by 15 percent (including metal costs).

The Mint also has set a target of shipping 98 percent of product orders within its published time standards. These standards are four weeks for commemorative programs, three weeks for recurring programs, and one business day for expedited.

The Mint did not meet the FY 1999 goal of 98 percent, the actual result was 79 percent, primarily due to the effects of the installation phase of its new Mail Order and Catalog System in early FY 1999. Performance has improved with training, experience, refinement of procedures, and policy adjustments. The Mint is beginning to realize both real efficiency gains and improved service to our customers with great promise over the long term.

Objective: Continue to explore mechanisms for maintaining the integrity of U.S. coin and currency

The recent advances in the technology available to counterfeiters require that counterfeit deterrence efforts continue as one of Treasury's priorities. Maintaining the integrity of U.S. currency is essential to the stability of both the domestic and global economy. Both the relatively stable purchasing power of the U.S. dollar and its wide acceptance as a form of payment worldwide increase the importance of maintaining its security and integrity.

The **Bureau of Engraving and Printing (BEP)** maintains its efforts to improve currency security features aimed at thwarting technological advances available to counterfeiters. The Bureau works with the Advanced Counterfeit Deterrence Steering Committee (which includes the United States Secret Service, Treasury policy officials, and Federal Reserve staff) to monitor counterfeiting activities and to develop appropriate strategies to avert counterfeiting. BEP continues to redesign Federal Reserve Notes to incorporate advanced counterfeit deterrent features. This year's counterfeit deterrence efforts will result in the issuance of a new series of redesigned $5 and $10 dollar bills in FY 2000.

During FY 1999, 0.0453 notes per million produced were returned by the Federal Reserve because of counterfeit deterrence defects. Although this number does not meet the target of 0.0200 returns per million notes, the extremely minute amount per million produced illustrates the high-level of quality control in BEP's manufacturing and design processes.

The **U.S. Mint** continues to safeguard the Government's stock of gold and silver bullion, coins, and coinage metals held at Fort Knox, Kentucky.

The Mint's Q50 program is the first major redesign of circulating coinage in many years. Q50 is a 10-year program that will honor five states per year (in the order of either the signing of the Declaration of Independence or the date of statehood) by changing the reverse of quarters from the old design to a design emblematic of each of the 50 states. Efforts are underway in Congress to extend the program for an additional year to honor the District of Columbia and the American Territories. The design for each state is determined by a design contest sponsored by the governor of the state. The five quarters issued in 1999 – Delaware, Pennsylvania, New Jersey, Georgia, and Connecticut – have proven to be extremely popular, as evidenced by sell-outs of many of the Q50 products offered for sale by the Mint and the significant increase in demand for quarters.

Law Enforcement Mission: Protect Our Financial Systems and Our Nation's Leaders, and Foster a Safe and Drug-Free America

Treasury plays a critical role in Federal law enforcement efforts, helping foster a safer nation by protecting our borders, preventing drug smuggling, combating violent crime, suppressing counterfeiting, fighting money laundering, preventing financial crimes against the currency of the United States, and training the vast majority of Federal law enforcement personnel.

This mission is supported by the U.S. Customs Service Enforcement Programs, the Bureau of Alcohol, Tobacco and Firearms, the U.S. Secret Service, the Financial Crimes Enforcement Network, the Internal Revenue Service, the Federal Law Enforcement Training Center, and the Treasury Forfeiture Fund.

Goal: Combat Financial Crimes and Money Laundering

Objective: Strengthen the capability to fight money laundering

The mission of **the Financial Crimes Enforcement Network (FinCEN)** is to support and strengthen law enforcement's anti-money laundering and financial crime efforts by: preventing money laundering through regulatory programs and outreach efforts to the financial industry; providing focused and sophisticated analysis of the elements of major case law enforcement support, including trends and patterns of money laundering; and serving as a catalyst to enlist valuable international support by promoting anti-money laundering measures worldwide.

FinCEN plays a critical role in supporting Treasury's objective to strengthen the capability to fight money laundering by continuing its law enforcement outreach program to increase the understanding and knowledge of what is available through FinCEN. These efforts have resulted in higher than expected use, with 73 individuals from 33 agencies participating in its 'platform' program, an increase of 22 percent in the number of queries and 11 percent increase in the number of alerts from its Gateway Program.

During FY 1999, FinCEN published the final regulation that requires registration of the Money Services Businesses (MSB) industry. The regulation is the latest effort to strengthen anti-money laundering controls. MSBs are financial institutions that provide distinct, but often-complementary services, such as money transmission, check cashing, currency exchange, and the issuance, sale and redemption of money orders and traveler's checks.

In the international area, FinCEN plays a leadership role in the development of multilateral and bilateral initiatives that encourage the adoption and implementation of international anti-money laundering standards. During FY 1999, FinCEN also completed the Project Asia-Wash reports on the money laundering situations in India and Pakistan, as well as a detailed report on the Hawala alternate remittance system, which updates an earlier Interpol report on that subject.

The **U.S. Customs Service's (Customs)** objective is to identify and disrupt the systems and criminal organizations that launder proceeds generated by smuggling, trade fraud, and export. In FY 1999, Customs seized or assisted in the domestic seizure of a total of $329.7 million in monetary instruments, which is about 18 percent above its goal of $280 million. We believe this increase to be a result of several factors: 1) after-effects of Operation Casablanca, which have allowed Customs to target previously unknown laundering cells, enabling a surge of money laundering investigations; 2) the Asset Identification and Removal Groups (AIRGs) maturation in its development and capabilities, and expansion to all 20 Special-Agent-in-Charge offices; and 3) successes in undercover enforcement operations, combined with the regulatory pressures of Geographic Targeting Orders (GTOs), which have forced criminal organizations to use less secure laundering systems, such as bulk currency smuggling, to move illegal proceeds out of the United States.

In FY 1999, 1,483 seizures were made totaling approximately $60.5 million in currency being exported illegally. Southwest border seizures increased from $14.4 million in unreported outbound currency in FY 1998 to $16.5 million in FY 1999. The Port of Chicago made a significant contribution with the single largest seizure of $1,565,658 in one outbound shipment. Customs exceeded its goal of $59 million in currency seizures due to the establishment of full-time Outbound teams, increased efforts to conduct outbound enforcement examinations, and the implementation of formalized outbound currency interdiction training. The increased use of forfeiture funds for participation of state and local officers in enforcement operations contributed to the increase in southwest border currency seizures.

Customs officers seized, or assisted in seizing, $30.4 million in real property in association with financial crime investigations. While the amount in real property seizures is below the FY 1999 plan, it is 30 percent above last year's amount. The actual figures for FY 1998, which previously appeared as $16.0 million, has been corrected to $23.4 million. Due to the conclusion of Operation Casablanca, the largest narcotics money laundering investigation conducted in the history of U.S. law enforcement, the 1998 totals for real property seizures were an anomaly. The 30 percent increase above last year's amount is due to the residual effects of Operation Casablanca because judicial forfeitures were completed in 1999. All the gains expected from expanding the Asset Identification and Removal Groups (AIRGs) to every Special-Agent-in-Charge office were not realized in FY 1999, but should be fully realized in FY 2000.

In FY 1999, Customs built a sophisticated infrastructure to address the key business and payment systems, identified by Operation Casablanca and other undercover operations, being exploited by international criminal organizations. The focus was on the Black Market Peso Exchange (BMPE). As the primary international trade mechanism being used to facilitate the movement of illegal proceeds, the BMPE has become embedded in international commerce, depriving countries of tax revenues and skewing trade statistics.

The Customs Money Laundering Coordination Center (MLCC) was directed by Treasury to be the nucleus for all intelligence gathering and industry outreach on the BMPE. The MLCC is the only U.S. government entity tracking the BMPE and figures prominently in the Treasury National Money Laundering Strategy. MLCC educated Customs offices on the impact of the BMPE laundering process, enabling them to then educate the multinational business community. Customs also engaged in cooperative efforts with the Department, IRS, FinCEN and others, to design strategies to disrupt and dismantle the BMPE. These efforts are ongoing and provide a global impact. Significant foreign revenues are now being recovered by foreign economies representing a significant part of their gross national products.

The **Internal Revenue Service's (IRS)** Criminal Investigation (CI) Division played a key role in the development of the National Money Laundering Strategy jointly endorsed by the Department of Treasury and the Department of Justice. Money laundering is a financial crime and is sometimes referred to as "tax evasion in progress." This national strategy will require the financial expertise of CI special agents in joint, multi-agency investigations.

Objective: Strengthen the capability to fight counterfeiting and other criminal threats to our financial system

The **U.S. Secret Service** has a critical role in Treasury's effort to strengthen the capability to fight counterfeiting and other criminal threats to our financial system. The Secret Service is responsible for the investigation of counterfeiting currency and securities; forgery and altering of government checks and bonds; thefts and fraud relating to Treasury electronic funds transfers; financial access device fraud, telecommunications fraud, computer fraud and telemarketing fraud; fraud concerning federally insured financial institutions; and other criminal and non-criminal cases.

The Secret Service focuses its priority on high impact/dollar cases, particularly those involving counterfeiting of U.S. currency, financial institution fraud, Government program fraud, organized criminal activity, and significant multiple violations. Financial crime and counterfeiting continue to be productive areas for the Secret Service representing 82 percent of all criminal investigations closed during FY 1999.

Advances in reprographic technology mean that large quantities of counterfeit currency or other obligations can be produced in a short period of time. Today's criminal needs relatively little knowledge or specialized training to print counterfeit currency on equipment ranging from inexpensive color copiers, scanners, computers and ink jet printers, to small offset duplicators and large commercial presses.

The Secret Service continues to work with the Treasury Department in a combined government/industry effort to explore technological options to deter counterfeiting. Efforts are currently focused on personally meeting with the major digital imaging companies to encourage this research and to coordinate implementation of the solutions.

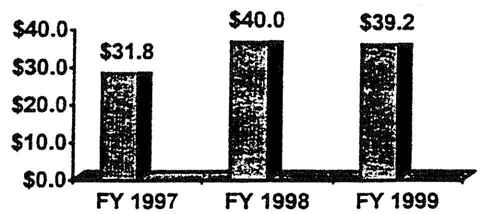
The fact that foreigners are using U.S. currency at an unprecedented level ($350 billion in circulation overseas) has created an increased opportunity for organized criminal networks to manufacture and deal in counterfeit dollars. To combat this situation, the Secret Service continues to stress its foreign liaison and aggressive law enforcement efforts in areas with significant counterfeit currency activity.

The Secret Service has developed an Internet Note Search Site to be used by law enforcement and financial institutions to search suspected counterfeit notes. The Internet Note Search Site not only allows an agency or institution to check a suspect note against the most current information, but provides the Secret Service with a means for charting counterfeit activity as the data is entered into the system by subscribers. This will result in a more comprehensive worldwide counterfeit tracking system because information on counterfeit currency will now be available as soon as it is passed or seized. Implementation of the system began in London, England, in March 1999, and has expanded to users in the United States, Hong Kong, Switzerland, South Africa, Italy, Czechoslovakia, and the Philippines.

The Secret Service seized $126.6 million in counterfeit U.S. currency in foreign countries prior to circulation, a 57 percent increase over FY 1998. It also suppressed 38 counterfeit plant operations in foreign countries, a 31 percent increase over FY 1998. The Secret Service developed the following performance measures to evaluate its counterfeit program:

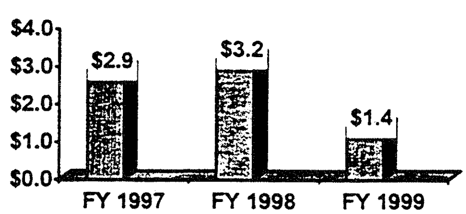
The U.S. Secret reports $39.2 million in counterfeit notes were passed domestically in FY 1999, less than the projected amount of $40 million.

Counterfeit Notes Passed On To the Public -- Domestic (in Millions)



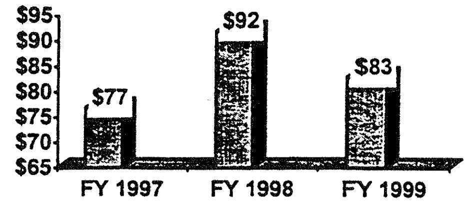
A total of $1.4 million in counterfeit U.S. currency was passed in foreign countries during FY 1999, some 72 percent less than originally projected amount of $5 million. The Secret Service currently depends on deposits made to the Federal Reserve Bank System for most of its foreign passing activity data. The significant decrease in foreign passing activity indicates that foreign users of our currency are becoming better at detecting counterfeit U.S. currency. This can be partially attributed to the better security features placed in the 1996 series currency design, to include the watermark and color shifting ink.

Counterfeit Notes Passed On To the Public -- Foreign (in Millions)



The following performance measure, counterfeit passed per million dollars of genuine U.S. currency, is an indicator of the proportion of counterfeit currency relative to the amount of genuine U.S. currency in circulation. During FY 1999, the Secret Service reports that for every million dollars of genuine currency in circulation there was $83 of counterfeit currency passed on to the public. This is noticeably less than the projected amount of $90 per million dollars.

Counterfeit Notes Passed For Each Million Dollars of Genuine U.S. Currency



The Department of the **Treasury Forfeiture Fund (TFF)** came into being with the passage of the Treasury Forfeiture Fund Act of 1992, Public Law 102-393. That statute consolidated all Treasury law enforcement organizations under a single forfeiture program administered by the Department. The U.S. Coast Guard (USCG) also participates in the Fund as authorized under the Fund's enabling legislation encoded under 31 U.S.C. 9703.

The principal goals of the Treasury forfeiture program are to: (1) punish and deter criminal activity by depriving criminals of property used in or acquired through illegal activities; (2) be cognizant of the due process rights of affected persons; (3) enhance cooperation among foreign, Federal, state and local law enforcement agencies through the equitable sharing of forfeited assets; and (4) produce revenues to enhance the forfeiture program and strengthen law enforcement.

Fund revenue again increased in FY 1999, with a total of $328 million in forfeited receipts deposited from all sources with the exception of property transfers, as compared to $278.9 million deposited in FY 1998 and $260.5 million deposited in FY 1997. As a result, the Treasury forfeiture program covered all mandatory costs and has declared a Super Surplus of $142 million from unobligated balances. These surplus funds will be used toward over $170 million in earmarked initiatives identified by Congress in FY 2000 Report language. The beneficiaries of these funds are a broad range of Treasury law enforcement bureaus.

FY 1999 was a banner year for equitable sharing with our state and local law enforcement partners. Over $150.5 million was shared with our state and local partners, as compared to $72 million in FY 1998.

Goal: Reduce the Trafficking, Smuggling, and Use of Illicit Drugs

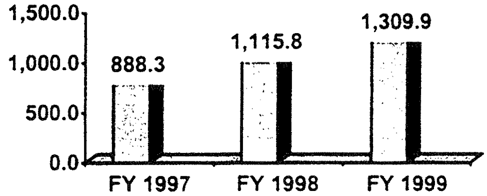
Objective: Strengthen the capability to interdict illegal drugs

The **U.S. Customs Service (Customs)** continues to be the primary drug interdiction agency in the Federal Government, often seizing more narcotics than all the other Federal agencies combined. Its goal is to reduce the flow of drugs across the U.S. border and disrupt and dismantle Drug Smuggling Organizations (DSOs) through unified intelligence, interdiction, and investigative efforts.

The quantity of narcotics seized in FY 1999 was another record for Customs. Customs seized 160,353 pounds of cocaine, 1,147,591 pounds of marijuana, 1,919 pounds of heroin, and 82,986 pounds of hashish, opiates, khat, and methamphetamine. The total weight of narcotics seized was 1,392,849 pounds, up 207,554 pounds, or 17.5 percent, above FY 1998 (up 1.8 percent for cocaine, up 20.1 percent for marijuana, down 30.5 percent for heroin, up 19.4 percent for other drugs). Customs made 2,509 cocaine seizures, 15,699 marijuana seizures, 911 heroin seizures, and 3,939 seizures of hashish, opiates, khat, and methamphetamine.

The total pounds of heroin, cocaine, and marijuana seized by Customs continued to increase, and the amount seized in FY 1999 exceeded the projected total of 968 thousand pounds. (Note: FY 1997 and FY 1998 numbers have been updated)

Seizures of Heroin, Cocaine, and Marijuana (Pounds in Thousands)



This success is due largely to enhanced Southwest border, maritime interdiction, and investigative and field operational initiatives. Specifically, Customs conducted the Border Coordination Initiative with the Department of Justice's Immigration and Naturalization Service and Frontline, a new and innovative approach to enforcement operations, which is the continuation of Operation Brass Ring. Also, the increase in seizures can be contributed to Southern Frontier, a working group chaired by the Attorney General, which focused on South Florida Caribbean enforcement efforts.

Last year's controversy, and ensuing public inquiry, over personal searches at airports, contributed to the decrease in the total pounds of heroin seized by Customs in 1999. Fewer personal searches were performed, while new policies and procedures for international air passenger processing were developed and implemented.

Objective: Disrupt and dismantle drug smuggling organizations

Operation Conduit was the winner of the Commissioner's Strategic Problem Solving Award for 1999. Operation Conduit is a joint effort by Customs, the Drug Enforcement Agency (DEA), Thailand, the United Kingdom Customs Service, and the Chicago Police Department to vigorously attack the West African heroin smuggling problem. Thus far, Customs has initiated 20 heroin investigations with global implications, seized 65 pounds of heroin with a street value of $60 million, and made 35 arrests.

Customs and DEA conducted Operation Ramp Rats/Skychef to target corrupt airline luggage ramp and cargo employees who divert shipments of narcotics from arriving flights from South America at Miami International Airport. To date, approximately 72 airport employees have been arrested or indicted for their involvement in the diversion of narcotics shipments, conspiracy to possess with intent to distribute cocaine, and/or conspiracy to import a controlled substance.

Operation Orion is a joint effort by Customs, the Royal Canadian Mounted Police, DEA, Immigration and Naturalization Service, Border Patrol, and local sheriff offices to address the proliferation of smuggling between the ports of entry in eastern Washington and northern Idaho. Results include the establishment of an intelligence distribution network, the seizure of 1,157 pounds of marijuana, 40 arrests, and the seizure of $680,000 and 9 vehicles.

Goal: Fight Violent Crime

Objectives: Deny criminals access to firearms and reduce the risk of violent crime in our communities

This objective is accomplished through various programs at **the Bureau of Alcohol, Tobacco and Firearms (ATF)**. ATF enforces provisions of the Gun Control Act of 1968, the National Firearms Act, the Brady Law, the Violent Crime Control and Law Enforcement Act of 1994, the Organized Crime Control Act of 1970, the Anti-Arson Act of 1982, and the Church Arson Prevention Act of 1996.

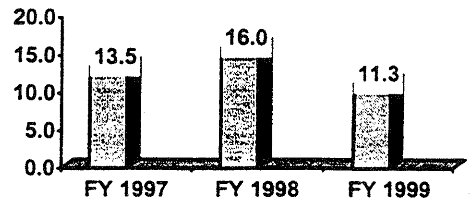
One program focuses on denying criminals the access to firearms through projects and services that identify, deter, and stop the sources of and participation in illegal firearms trafficking. Overall goals include recommending for prosecution the most active illegal firearms traffickers, preventing future firearms crimes and reducing crime-associated costs by incarcerating illegal firearms traffickers.

Youth Crime Gun Interdiction Initiative (YCGII) is a focused component of ATF's nationwide Firearms Trafficking Program developed and deployed in FY 1996, which identifies and investigates the illegal sources of firearms to youths. In FY 1999, ATF promoted the use of online information from the National Tracing Center that provides essential investigative leads. Two major goals of YCGII are to encourage comprehensive crime gun tracing by State and local law enforcement agencies and to provide crime gun market analyses to break the chain of illegal supply of firearms to youths.

The National Tracing Center (NTC) is the only operation of its kind in the world. This facility conducts traces of firearms recovered at crime scenes and from youth for any Federal, State, local or international law enforcement agency. The National Tracing Center is the only repository for all Federal firearms licensee out-of-business records, where millions of records are currently stored.

The goals of the NTC is to increase the number of trace requests via increased electronic access to NTC information, and to provide timely service by reducing the number of working days it takes for tracing firearms. ATF exceeded its FY 1999 goal of reducing the number of workdays to 11.5 days.

Average Number of Workdays for Firearm Tracing



ATF developed and initiated the Electronic Trace Submission System (ETSS) which allows state and local law enforcement agencies to electronically transmit crime gun trace requests to NTC. NTC is working with major firearms manufacturers and wholesalers to implement electronic transfer of trace information from business records that are maintained electronically.

The Crime Gun Analysis Branch provides ATF personnel and other law enforcement agencies with crime gun data specific to their geographical areas. The Branch uses crime gun data amassed by the NTC to identify illegal firearms trafficking patterns and trends throughout the world.

The Stolen Firearms Project seeks to reduce thefts of firearms from Federal Firearm Licensees and interstate carriers transporting firearms. This is accomplished through collecting and analyzing firearm licensee and interstate carrier theft information, and providing investigative leads to special agents and inspectors. Firearm theft recoveries reported in FY 1999 were 10,069.

ATF continues its effort in removing violent offenders from our communities, through programs, projects, and services to investigate, arrest, and recommend for prosecution, the most violent criminals who use firearms and explosives in furtherance of their criminal activity.

ATF uses specific provisions of the 1968 Gun Control Act, as amended, that mandate extended mandatory periods of incarceration to remove the most dangerous, armed career criminals and armed drug traffickers from the streets. Firearms use and possession by these violent criminals become their "Achilles' heel" as they are exposed to lengthy prison sentences under these Federal laws. These two projects, which are complementary, strive to incarcerate armed violent criminals for longer periods of time to prevent future crimes of violence and the costs of those crimes to the American public. Sentences have substantially increased because ATF special agents have been more effective at focusing on the more dangerous and violent armed criminals.

Under the National Integrated Ballistics Information Network (NIBIN) program, ATF is utilizing a state-of-the-art system, Integrated Ballistics Identification System (IBIS), which allows firearms technicians to digitize and automatically correlate and compare bullet and shell casing signatures at a greatly accelerated rate.

Objective: Safeguard the public from arson and explosives incidents

An integral part of ATF's overall violent crime reduction strategy, its arson and explosives projects are directed toward preventing the criminal misuse of explosives and the crime of arson, as well as providing effective post-incident response. ATF provides resources to identify and pursue those who misuse explosive materials in bombings and arson fires. ATF, in part, measures its success by the amount it saves the public resulting from proactive investigations. This is particularly true with arson-for-profit schemes. ATF's efforts in arson cases save money for the insurance industry and, ultimately, save the American public by exposing millions of dollars annually in fraudulent claims.

ATF's National Repository helps authorized investigators identify case-specific similarities regarding explosive and incendiary device construction, methods of initiation, types of fuels/explosives used, and methods of operation.

The Accelerant Detection Canine Program is a product of a joint ATF/Connecticut State Police endeavor to place accelerant detection canines with State and local agencies to support their arson investigation activities. Through FY 1999, a total of 68 accelerant-detecting canines, including additional six canine teams in FY 1999, have been certified by ATF for State and local agencies.

In FY 1999, ATF's National Response Team (NRT) provided effective post-incident response in 42 activations. These incidents involved $119.9 million in damages and were responsible for 12 deaths and 17 injuries. Arrests were made in 46 percent of the criminal incidents investigated by the NRT, a percentage considerably greater than that for like incidents investigated nationwide.

Objective: Strengthen the capability to fight terrorist threats to the U.S.

Under a training arrangement with the U.S. Department of State, ATF trains explosive detection canines for foreign countries to be used overseas in the war against terrorism and to protect American travelers abroad against terrorism. ATF has certified 190 canine teams for the program, deployed in ten countries worldwide. In FY 1999, ATF trained 26 additional canine teams and seven canine trainers for the Department of State, Office of Antiterrorism Assistance. ATF continues to perform assessments of additional foreign countries for placement in this program.

Goal: Protect Our Nation's Leaders and Visiting World Leaders

The primary objective of the **U.S. Secret Service** is to provide the highest level of protection possible for all persons authorized Secret Service protection to include the President, the Vice President, and other dignitaries and designated individuals when the protectee is in residence or in a travel status. As a rule, efforts to provide security increase dramatically when the protectee is traveling.

Travel of Secret Service protectees was unprecedented during FY 1999 and put considerable demands on Secret Service resources. The Secret Service measures protectee travel activity in terms of travel stops. A stop is generally considered a city or other definable subdivision visited by a protectee. During FY 1999, the Secret Service provided physical protection at 5,723 travel stops, a 12 percent increase over FY 1998.

The signing of Presidential Decision Directive (PDD) 62 recognized the Secret Service as the lead agency for the design, planning and implementation of security at an event declared by the National Security Council as a "National Special Security Event." During FY 1999, the Secret Service successfully applied its resources and expertise to design, plan, and implement security for the April 1999 North Atlantic Treaty Organization 50th Summit in Washington, DC, and the September 1999 United Nations 54th General Assembly in New York City.

Goal: Provide High-Quality Training for Law Enforcement Personnel

Objective: Enhance Basic and In-Service Training Programs to Meet Changing Needs and Increasing Demands

One of the most dynamic initiatives undertaken by the **U.S. Secret Service** during the past two years has been the academic partnership established with the Johns Hopkins University (JHU) Police Executive Leadership Program in Baltimore, Maryland. Various training programs and activities associated with the partnership have been established. However, conducting mid-level management courses developed exclusively for the Secret Service staff has unquestionably been the most visible project to date.

A significant component of the Hopkins initiative provides the academic expertise in a wide range of curriculum and instructor development programs designed to enhance the overall quality of the investigative, protective, managerial, and leadership training provided by the Service's James J. Rowley Training Center.

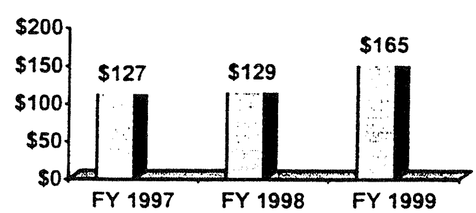
The Secret Service is laying the groundwork for the use of new technology such as CD-ROM, video-conferencing and web-based courses, to provide more classes to more Secret Service personnel as a compliment to its traditional classroom and simulation training.

The mission of the **Federal Law Enforcement Training Center (FLETC)** is to provide quality, cost effective training to participating Federal law enforcement personnel, as well as State, local and international agencies, and private security personnel.

The major goals are to provide law enforcement personnel with state-of-the-art knowledge and techniques used in the law enforcement profession; fully develop the cost effective potential through consolidation of Federal law enforcement training at the FLETC; and provide for all basic training direct costs from FLETC appropriations. Basic and specialized training included: various aspects of interpersonal relations; use of vehicles and vessels; various law enforcement operational procedures; financial fraud and crimes; armament and weaponry; managing and supervising law enforcement operations; trauma management and cardiopulmonary resuscitation, physical fitness, self defense; and security.

One of the performance measures established by FLETC monitors the variable unit cost of training, and not surprisingly, the costs continue to rise from $129 per basic student-week of training in FY 1998 to $165 in FY 1999.

Variable Unit Cost Per Basic Student-Week of Training



Objective: Develop and operate state-of-the-art facilities and systems for training

The basic and in-service training provided to employees of the **U.S. Secret Service** and personnel from other law enforcement agencies has been enhanced in FY 1999 as a result of a number of ongoing initiatives and capital construction projects.

A new Close Quarters Tactical Building has been completed and is used by Secret Service Special Operations Teams to train in the most realistic environment possible. An Airport Apron Classroom Building has been completed which allows students to observe tactical training exercises being conducted at a mock airport setting utilizing a 707 airplane fuselage, simulating Air Force One. The Secret Service is planing to take delivery of a de-commissioned U.S. Navy VH-3 helicopter, a mock Marine I, for use as a simulator as well.

The Secret Service purchased two Skid-car training devices, which have ladder frames with four hydraulic-controlled outrigger casters bolted to the undercarriage of two vehicles. Skid-car enables the instructor to alter the degree of road grip, and hence, to simulate different types of slippery driving surfaces.

Management Mission: Continue to Build A Strong Institution

This fourth and critical mission focuses on the continued emphasis on a strong and efficient organization in order to succeed in accomplishing program goals. This mission area is supported by all Treasury bureaus and focuses on improving management operations, which address human resources management, bureau oversight responsibilities, financial management, information technology, and procurement. Under the goal of improving program performance are objectives to improve customer service, foster partnerships, and modernize operations.

Goal: Improve Management Operations

Objectives: Improve capacity to recruit, develop, and retain high-caliber employees

Treasury is a highly complex, far-flung organization with 143,662 employees working in 12 diverse bureaus whose missions range from administering and protecting the nation's financial system, to ensuring the safety of national and world leaders, to training law enforcement professionals and fighting crime. Treasury is taking advantage of private sector marketing expertise and state-of-the-art recruitment techniques using the Internet to improve the Department's capacity to attract and retain talented staff.

Treasury is transforming its human resource management processes by implementing a new integrated personnel and payroll system called *HR Connect*. Using state-of-the-art technology, this system will streamline and reengineer human resource processes, support collaborative approaches to Department-wide needs, and provide each bureau with the flexibility to accomplish its unique mission.

Several bureaus have contracted professional advertising agencies to assist in aggressive marketing campaigns. Recruitment efforts are targeting schools, publications, and other audiences known for state-of-the-art technical expertise. Other bureaus have contracted with private search firms for assistance in filling executive level and hard-to-fill positions, and have used outside advertising agencies to design and manage job advertising campaigns in print media.

Most bureaus offer information on employment opportunities on their web sites, including application instructions and specific job announcements. In some cases, such as the Departmental Offices, applicants can now apply for positions electronically.

Objective: Strengthen Treasury's ability to ensure proper and effective oversight of bureau operations

In addition to reviewing and approving each bureau's strategic goals, objectives and strategies, effective oversight requires that Treasury have access to accurate and timely status information on key bureau performance measures throughout the fiscal year. Such information allows the identification of potential problems in time to take corrective actions to minimize any projected shortfalls. This translates into tracking and monitoring literally thousands of individual pieces of data derived from many different data sources for hundreds of performance measures across the bureaus.

Treasury implemented the Performance Reporting System (PRS), which centralizes all of the information associated with its performance plans and performance reports. For each Treasury bureau, the system contains a mission statement, and the performance goals and measures from each bureau's performance plan. Through PRS, bureaus report actual performance against target performance for each of their measures (totaling approximately 365 Treasury-wide). The system can accommodate regular updates as the data is available at the bureau level. Because it is web-based, Treasury bureaus do not need special software to access and use it.

Objective: Ensure strong financial management of Treasury accounts

Since the passage of the Chief Financial Officers (CFO) Act of 1990, Treasury has made good progress in improving its financial management. Progress has been made in the installation of a Department-wide data warehouse that captures financial data from all Treasury entities, and allows the timely analysis of bureau financial data. FY 1999 data is being used to produce the Department-wide financial statements in parallel to the bureau prepared spreadsheets, with the goal of producing the FY 2000 statements solely using this new system. This approach enables the Department and its auditors to ensure that the new system provides accurate information before going live in FY 2000.

The FY 1996 disclaimer of audit opinion, delivered on April 30, 1997, was improved to a qualified opinion by FY 1998, which was delivered on March 23, 1999. The continuing improvement of the quality and timeliness of the Department's financial data, and the concurrent improvement in the management of Treasury's accounts on an ongoing basis, is largely dependent on the correction of material financial systems weaknesses. Between FY 1998 and FY 1999, the number of material weaknesses was reduced by a net of over 12 percent (24 were closed, with 17 new weaknesses identified, for an ending balance of 49 weaknesses).

Objective: Make wise information technology (IT) investments and ensure Year 2000 compliance

In 1999, Treasury re-designed its capital investment processes. Among other actions, Treasury re-charted its capital investment management group, the Treasury Investment Review Board (TIRB). Originally chaired by the department's Chief Information Officer (CIO), ASM/CFO now chairs the new TIRB. The ASM/CFO has overall responsibility for GPRA planning and budgeting. The CIO still controls the IT agenda for the TIRB. The IT agenda focuses on department-wide IT systems, including telecommunications and human resources. Critical bureau IT systems also are reviewed. The purpose of the TIRB is to review these capital investments in the context of the department's business priorities and GPRA goals.

To support the TIRB process, Treasury installed a new system – the Information Technology Investment Portfolio System (I-TIPS) -- to aid IT investment management at both the department and bureau levels. By re-designing its investment management process and aiding that new process with automated tools like I-TIPS, Treasury intends to achieve the purposes of I-TIPS: align IT investments with the Treasury business missions, develop a repeatable investment management process, and manage IT initiatives.
Treasury has focused much effort and resources to address the **Year 2000 compliance** issue. The Department has identified a total of 323 mission critical Information Technology (IT) systems, and all but one system, ATF's Federal Excise Tax (FET) System, were compliant and operational at the end of the fiscal year. Development of this system has been completed and the system is scheduled to be implemented by late November 1999.

Treasury has a total of 925 non-mission critical systems, of which 850 (92 percent) are Year 2000 compliant as of September 30, 1999. All remaining non-mission critical systems are scheduled to be completed by December 31, 1999.

Of the 3,125 mission critical Non-IT systems, 2,998 are compliant, 74 systems will be retired, 12 systems need repair, and the remaining 41 will be replaced.

The following table represents the total costs-to-date associated with Year 2000 remediation, including both information technology costs as well as costs associated with fixing Non-IT systems.

(in millions)

Fiscal Year	Total Costs	Non-IT Costs	Telecommunication Costs
1996	$ 8.4	$ .1	$ 3.4
1997	212.6	.3	22.5
1998	640.5	11.8	145.8
1999	651.3	18.6	152.3
Total	**$ 1,512.8**	**$ 30.8**	**$ 324.0**

Additional costs have been estimated to complete the Year 2000 remediation, which include: ensuring data exchange compliance with all external entities, including other Federal agencies and the private sector; and performing ongoing End-to-End testing, validation and certification on remaining systems.

(in millions)

Fiscal Year	Total Costs	Non-IT Costs	Telecommunication Costs
2000	292.9	1.8	30.4
2001	109.1	-	12.8
Total	**$ 402.0**	**$ 1.8**	**$ 43.2**

Objective: Procure quality goods and services at a fair and reasonable price and in a timely manner

Treasury measures the effectiveness of its procurement processes using the Performance Measurement Assessment Tool (PMAT). This tool, developed by an interagency group of procurement representatives, was first baselined in 1995 and is updated about once every two years. PMAT provides quantitative assessments for 11 different aspects of procurement management, including procurement timeliness and quality, and procurement-influenced cost savings. The data for the PMAT scores come from customer, employee and self-assessment surveys.

Of the 11 areas measured, Treasury improved its performance in eight areas, remained relatively constant in two areas, and fell in only one area between 1995 and 1999. Timeliness and Quality measures have been relatively stable over the past five years. Areas showing the most significant improvement were executive leadership, acquisition excellence, acquisition data collection, and meeting mission goals.

Treasury believes a fundamental tenet of sound procurement policy is to maximize the use of competition in contracting. Treasury encourages the use of competition through the aggressive implementation of its Competition in Contracting Act (CICA) Program. The trend in competitive procurements has been relatively stable over the past five years, ranging from roughly 87 percent to 90 percent of the dollar value of goods and services procured. However, Treasury's marks are well above the government average of 64 percent.

Objective: Expand equal employment opportunities and minority programs

Treasury's strategies in this area are to expand the pool of minority applicants by establishing partnerships with schools, including those having large minority populations, maximizing the use of technology (Internet and Intranet), and using existing organizations to leverage recruitment.

In addition, Treasury focuses its efforts in identifying and applying best practices utilized by government and private industry in attracting minority applicants and employees, and adopting strategies and implement programs that are aimed at training, retaining, and promoting a diverse workforce.

Treasury also utilizes innovative outreach and recruitment methods, such as print and electronic media advertising, in addition to participating in job fairs, career days, and other outreach programs associated with colleges, universities, and community/civic organizations.

Goal: Improve Program Performance

Objective: Improve customer service

In compliance with Executive Order 12862, Treasury bureaus developed and published customer service standards for delivery of high quality services and programs to the public. Treasury has made customer service improvement a Department-wide objective and several bureaus have undertaken particularly noteworthy customer service improvement programs.

The Internal Revenue Service (IRS) has aggressively pursued strategies to identify customer expectations and improve customer service. These strategies include service-wide customer satisfaction surveys to gauge customer service quality and satisfaction and identify areas for improvement. The surveys examined the level of satisfaction customers reported from interacting with the IRS whether through toll free services, walk-in services, field and office examination, or other types of services.

Other examples of efforts to improve customer service include:

- *Expanded On-Line Customer Service* -- Expanded use of online customer service technologies, such as the "Mailman" application that allows taxpayers to submit questions to Customer Service Representatives on the Internet site and receive responses via e-mail, thus provides greater customer access to IRS help while on "The Digital Daily." Specialized services such as employment tax help also were piloted successfully;

- *Notice Information On The Web* -- This new application answers the most frequently asked questions about IRS' highest volume notices, such as "Math Error – Overpayment of $1 or more" and "Balance Due, No Math Error." It instructs taxpayers on how to determine which notice they have, what they should do next and who to contact if they disagree with the notice; and

- *Small Business Resource Guide CD-ROM* -- This pilot CD-ROM is designed to be a reference guide for the entrepreneur. It provides a basic tax primer that highlights the tax information of most importance to small businesses during the first two years of operation. In addition, it includes all the Federal tax forms and publications needed by small business, as well as a wide array of additional information available at government and non-profit web sites.

Toll-free taxpayer service was expanded to 7 days per week, 24 hours per day. New 1-800 services were installed to allow taxpayers to discuss balance due notices and proposed assessment notices with skilled IRS employees. IRS Customer Service continued to simplify notices and written correspondence with taxpayers, and to promote the use of telephone communication in resolving taxpayer inquiries. In addition, three walk-in taxpayer service sites tested a multilingual interpreter service, which provides access to 140 different languages, for customers who speak little English.

The **U.S. Mint** has published twelve customer service standards focusing on customer needs and anticipate changes in coin demands. These include processing refunds within 14 business days, processing product replacements within seven days, and responding to written inquiries within three days. The Mint redesigned its public web site to include an online catalog, secure online credit card payments for product purchases and an electronic newsletter to customers. With the newly designed web site, customers can view and purchase numismatic products more easily.

Since first offering numismatic products for sale on the Mint's redesigned web site, the Mint processed 244,219 Internet orders and generated $15.6 million in internet-based sales revenue in FY 1999. The *Government Executive* magazine recognized the Mint as the "Best Feds on the Web" for its web site. The Mint's Customer Service Center in Lanham, Maryland earned a Maryland Quality Award for advancements in operations, particularly in speed and comprehensiveness in serving customers.

The **U.S. Customs Service (Customs)** has been working jointly with the Immigration and Naturalization Services (INS) and the Animal and Plant Health Inspection Service (APHIS) to provide the best passenger clearance time at airports and land borders while preventing the entrance of contrabands. In this joint effort, Customs improved customer service by processing air travelers in 20 minutes or less. Through the use of the Advance Passenger Information System (APIS), Customs required five minutes of the 20 minutes total processing time frame for air travelers.

In addition to the use of APIS, Customs has increased the use of non-intrusive technology at airports, such as x-ray, to detect contraband carried by passengers. The use of non-intrusive technology provides passengers the option to be searched without physical contact.

Objective: Foster partnerships with customers and stakeholders to achieve objectives

Treasury bureaus have intensified partnering with regulated industries and businesses, labor unions, government agencies, and non-governmental agencies to gather expertise, information and resources to facilitate the effective delivery of services and programs. Financial Crimes Enforcement Network (FinCEN), the United States Mint and the Financial Management Service (FMS) have worked effectively with customers and stakeholders to achieve the mission and goals of the Treasury.

Financial crimes such as money laundering are transcending across borders through information technology and a global economy. In response to this, the **Financial Crimes Enforcement Network (FinCEN)** continued to conduct meetings, conferences, and open public hearings in fiscal year 1999 with the law enforcement, regulatory, and financial communities to design workable and cost-efficient anti-money laundering standards. In addition, FinCEN continued providing information to international Financial Intelligence Units (FIUs) in support of their anti-money laundering activities and conversely, requesting and receiving information from FIUs on behalf of U.S. domestic law enforcement anti-money laundering investigations. FIUs are established in several countries such as Great Britain, France, and Belgium to encourage adoption of international anti-money laundering standards, to share information on money laundering issues and financial services worldwide, and to protect the financial community. By working with FIUs continuously, FinCEN successfully promoted direct operational cooperation on anti-money laundering investigations internationally.

In fiscal year 1999, the **U.S. Mint (Mint)** entered into several joint ventures to promote the 50 State Quarters Program (Q50). Sesame Street's Kermit the Frog served as "spokesfrog" for print and television advertisements and Hallmark Gold Crown stores and the *Hallmark Collections Catalog* offered holiday gift products fashioned from 50 State Quarters.

In FY 1999 the Mint and its labor union, the American Federation of Government Employees (AFGE) reached its 6th National agreement, the first national contract agreement negotiated under Partnership in the federal government. Through the Mint-AFGE partnership, employee union representatives and management representatives together continued to improve customer service; launched Front Line Leadership Training for every supervisor and union steward to develop managerial skills; and formed Manufacturing Excellence Teams to identify cost-reductions and savings for the Mint's operations.

The **Financial Management Service (FMS)** continued working closely with the Departments of Education, Agriculture, Housing and Urban Development, Veterans Affairs, Health and Human Services and the Small Business Administration to encourage debt referrals for the increased collection of non-tax delinquent debt owed to the U.S. government. In FY 1999 FMS worked with the Department of Health and Human Services' Office of Child Support Enforcement and state agencies to collect delinquent child support payments owed to states and territories.

FMS also continued conducting educational outreach programs to inform representatives from federal and state agencies about the Treasury Offset Program (TOP), a program designed to assist agencies in the collection of delinquent debts. Partnerships with state and federal agencies have encouraged more debt referrals to the Treasury; thus allowing FMS to collect more money owed to the U.S. government.

In 1996, as a result of legislation, the **Bureau of Alcohol, Tobacco and Firearms (ATF)** established a National Repository of information on arson incidents and the criminal misuse of explosives throughout the United States. The National Arson and Explosives Repository System (AEXIS) is an extension of the ATF Explosives Incidents System (EXIS) and incorporates information from Federal, State and local fire service and law enforcement personnel. ATF recognizes that partnerships with other Federal agencies are integral to the success of the National Arson and Explosives Repository. The principal Federal partners in the data collection effort are ATF, the Federal Bureau of Investigation (FBI), and the United States Fire Administration (USFA).

In June 1996, President Clinton formed the National Church Arson Task Force (NCATF) and made the investigation of these fires a top priority of Federal law enforcement. The task force combined the efforts of ATF, the FBI, Justice Department Attorneys, Federal Emergency Management Administration, Department of Housing and Urban Development and the Community Relations Service of the Department of Justice. Thus far, the task force has opened 813 arson/bombing investigations. A total of 353 defendants have been arrested nationwide which solved 286 of the 813 investigations. The task force continues to investigate arsons, bombings and attempted bombings that are targeted at houses of worship and will continue to promote church arson awareness through outreach efforts across the country.

ATF's International Response Team, formed as a result of the agreement with the Department of State to provide technical assistance to foreign countries in the investigation of incidents involving explosives and fires.

ATF focuses on community efforts designed to encourage and participate in the prevention of violence. The Gang Resistance Education and Training (G.R.E.A.T.) Program provides classroom instruction for school-aged children and a wide range of community-based activities that result in the necessary life skills, a sense of competency, usefulness, and personal empowerment needed to avoid involvement in youth violence and criminal activities. During FY 1999, G.R.E.A.T. officers around the country have taught approximately 334,443 school-aged children.

Objective: Continue to Reinvent and Modernize Operations to Achieve Efficiencies

The **Treasury Franchise Fund's** objectives are: promoting efficiencies in the delivery of administrative products and services; reducing duplication of efforts; fostering competition; achieving full cost/self sufficiency; ensuring customer satisfaction, and implementing improved financial and business practices. The Franchise Fund currently consists of eleven business activities.

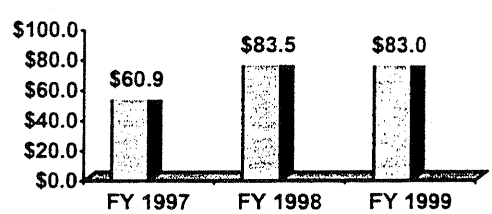
In FY 1999, the third full year of operations, the Fund again experienced significant improvements. Revenues for FY 1999 were $138 million, up 72 percent from the prior year of $80 million. Total assets increased 42.9 percent from $28 million in FY1998 to $40 million in FY 1999.

The Fund is using an internal benchmarking process to identify best practices within the Fund organization, and has established several standard benchmarks, such as annual budget cash flow, and financial statement ratios and best practices.

Treasury's **Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA)** played an important role in assisting the Department and its bureaus to identify areas of improvement in program management and financial accounting and reporting.

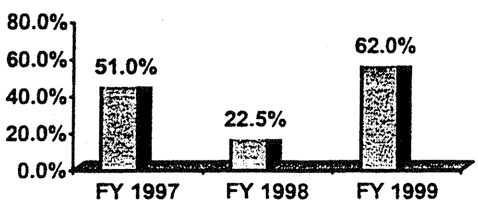
The OIG's Audit program identified a total of $83 million potential savings for FY 1999 through its recommendations. Three non-recurring audits conducted at the Bureau of Public Debt, U.S. Customs Service and the Bureau of Engraving and Printing during FY 1999 attributed to 85 percent of these potential dollar savings.

Potential Dollar Savings Identified



The OIG fell short of its FY 1999 target for completing 75 percent of investigations within 12 months. However, it is a significant improvement from the previous year.

Percentage of Investigations Completed Within One Year



During FY 1999, the OIG's Office of Investigations has undergone a complete restructuring. Both investigative staff and responsibilities were transferred to the new TIGTA. All IRS-related allegations and on-going investigations had to be reviewed, documented, and transferred to TIGTA jurisdiction. Open cases had to be reviewed and appropriate actions taken.

In addition, the closing of some OIG offices and opening of new offices in areas where integrity risks and concentrations of non-IRS Treasury personnel were high resulted in a large number of new investigations in FY 1999.

TIGTA was created in January 1999, as a result of the Internal Revenue Service Restructuring and Reform Act of 1998, with the oversight responsibilities on all IRS-related matters, including those of the IRS Oversight Board and the IRS Office of Chief Counsel.

During FY 1999, TIGTA identified a total of $815 thousand in questioned costs that were due to alleged violations of provisions of laws, regulations, contracts or other requirements governing the expenditure of funds, and costs that were not supported by adequate documentation. A total of $191 million have been identified for funds that could be used more efficiently if management took actions to implement and complete the TIGTA audit recommendations.

The following table presents FY 1999 financial accomplishments through TIGTA investigations.

Type	Amount
Bribe Payments (Seized/Recovered)	$320,524
Embezzlement/Theft Funds (Recovered)	$76,885
Fines Ordered by the Courts	$5,385,449
Restitution Ordered by the Courts	$19,604,947

Ongoing Challenges

Overall Priorities

The Secretary and senior management officials continue to focus their efforts on a wide range of domestic and international issues. Domestically, Treasury will concentrate on helping to develop and defend the President's tax and budget strategy; helping to develop and promote Social Security and Medicare reform; bringing low-income Americans into the financial and economic mainstream; enhancing the stability of our financial system; making the new e-commerce economy work for America's financial consumers; and preventing guns from getting into the wrong hands. Internationally, we will focus on strengthening the global financial system, including reform of the IMF; implementing the President's initiative to provide debt relief to impoverished nations; developing an initiative to enhance the diffusion of vaccines to the third world; and cracking down on money laundering.

Treasury has organized its FY 2000 priorities into the following six broad objectives:

1. ***Maintain fiscal discipline*** – This includes issues on Social Security/ Medicare reform, large unpaid-for tax cuts, proliferation of corporate tax shelter, and national debt paydown;

2. ***Promote growth and economic development in the global financial system*** – This includes activities related to economic growth and stability, IMF/World Bank Reform, China's accession into the World Trade Organization, trade, Russia, debt relief initiative for Heavily Indebted Poor Countries, emerging market economies, and vaccines in less developed countries;

3. ***Maintain a strong and healthy financial system*** – This includes activities related to implement the Financial Modernization Law, strengthen financial privacy of consumers, promote E-finance/E-commerce, and reduce systemic risk;

4. ***Ensure that low-income Americans share in the Nation's prosperity*** – This includes providing access to banking services for low-income Americans, securing passage of the New Markets tax credit, promoting mentoring relationships between large and small businesses, expanding Treasury's collection of unpaid child support, expanding and increasing retirement savings coverage, promoting greater savings and financial literacy, and promoting economic growth along the Southwest Border;

5. ***Enhance the safety of our communities*** – This includes activities relating to develop integrated strategy to reduce gun violence and firearms distribution and safety, implement the National Money Laundering Strategy, identify and impose financial and trade prohibitions on foreign narcotics traffickers, prevent identity theft, and eliminate child labor; and

6. ***Continue management reforms within the Department*** – This includes IRS reform and restructuring, and Department-wide human resources management.

Internal Revenue Service Modernization and Restructuring

The Restructuring and Reform Act of 1998 (RRA 98) required significant changes in the Internal Revenue Service (IRS), and resulted in the development of a new mission statement for the IRS. That mission was translated into three goals: service to each taxpayer, service to all taxpayers, and productivity through a quality work environment. To accomplish these goals, the IRS has reorganized itself into four operating divisions: Wage and Investment; Small Business and Self Employed; Large and Mid-Size Business; and Tax Exempt and Government Entities. A comprehensive blueprint of the new organization has been developed and IRS plans to have the modernized structure in place by year-end 2000.

In order for modernization efforts to succeed, three things are needed. First, continued interest and support from key stakeholders is critical and must be sustained. Second, it is essential that all participants in, and observers of, this process acknowledge the realistic time requirements of full implementation. Energy must be applied to combating the frustration that naturally comes with the impatience of converting vision into reality. And third, continued resource support is necessary to ensure that enough people – and their intellectual capital - remain dedicated to the demanding task of implementation. It is anticipated that the transformation of the IRS into an organization delivering world class customer service will take the better part of a decade.

IRS Federal Tax Receivables

Problems related to IRS Federal tax receivables and other unpaid assessments continue to be an IRS and Departmental management priority, and progress has been made in securing documents to support the accuracy of reported unpaid assessments. IRS continues to provide quarterly progress reports on management controls to the Department on actions taken in addressing this important issue. Striving to close the gap between tax revenue owed the government and the amount likely to be collected remains a major challenge for IRS.

IRS developed action plans to meet the short-term need of providing timely and accurate documents to support unpaid assessments reported on financial statements, with the long term plan of developing a strategic approach to evaluate current modernization plans in relation to support management information system.

Financial Management Weaknesses

Management reviews and audits conducted by the General Accounting Office, Treasury's Office of Inspector General and Office of Inspector General for Tax Administration identified financial management weaknesses which hinder our ability to achieve our missions and program objectives. These weaknesses also have a significant impact on the Treasury bureaus' ability to carry out their programs or prepare timely financial statements. In addition, these weaknesses are a major factor preventing the Department from receiving an unqualified opinion on its annual financial statements. Some of these weaknesses are identified as "high risk" by the General Accounting Office (GAO).

Part III of this Accountability Report provides specific information on these financial management weaknesses. Although Treasury has made good progress in resolving some of these weaknesses, we are unable to provide reasonable assurance that the objectives of Section 4 of the Federal Managers' Financial integrity Act (financial management systems) have been achieved. Therefore, we are also not in substantial compliance with the Federal Financial Management Improvement Act. A majority of these weaknesses are concentrated in the Internal Revenue Service, Financial Management Service, Office of the Comptroller of the Currency, U.S Customs Service, Departmental Offices and the Executive Office of the Asset Forfeiture Fund.

Treasury will continue to be rigorous in identifying its weaknesses and conscientious in developing corrective actions to resolve its new and existing material weaknesses.

Data and EDP Security

Data and EDP security in bureaus' automated systems continues to be an important issue for the Department. Financial statement audits at Treasury bureaus identified material weaknesses relating to internal controls over the data in the automated systems. EDP general controls designed to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations need to be strengthened at Internal Revenue Service, U.S. Customs Service, Financial Management Service, and Bureau of Alcohol, Tobacco and Firearms. Treasury's Chief Information Officer (CIO) has expanded oversight of bureaus on systems security issues to ensure that the corrective actions at each bureau are achieved in a timely manner.

Consolidated Financial Statements (CFS) for the Federal Government

The Department of the Treasury is responsible for preparing consolidated financial statements (CFS) of the Federal Government. A number of problems were identified in the audit of fiscal year 1998 CFS, which resulted in a disclaimer of audit opinion from the GAO. Significant deficiencies in the agencies' financial systems seriously hampered Treasury's ability to obtain timely and reliable information for the Government-wide financial statements.

GAO reported that problems with fundamental record-keeping, incomplete documentation, and weak internal controls prevent the government from accurately reporting a large portion of assets, liabilities and costs. GAO recommended that Treasury work with agencies to address some of these problems: 1) ensure proper accounting for basic transactions, especially those between governmental entities; 2) ensure information reported for the CFS is consistent with the agencies financial statements and that reconciliations are conducted on a periodic basis; and 3) ensure that all disbursements are properly recorded and reconciled with Treasury's records.

Treasury has provided significant assistance to agencies through the development of implementation guides and through training with individual agencies in the areas of reconciling fund balances with Treasury, elimination of intra- and inter-agency balances and clearance of disbursement items from the suspense accounts. In addition, Treasury has developed FACTS II to assist in the year-end data collection effort, and created a new data verification methodology to ensure consistency of agency financial statement data with the data used in the preparation of the CFS.

While significant progress has been made, much work remains, especially in the areas of reconciliation of budgeted amounts with accrual amounts, and with the elimination of transactions which, due to the nature of individual appropriations, do not properly eliminate.

Government Performance and Results Act (GPRA) Implementation

Challenges exist in integrating performance planning and reporting with budget formulation and execution, and annual financial reporting. Treasury must develop effective cost accounting so that programs and operations can be effectively evaluated from a cost/benefit standpoint. More work is still needed to refine strategic planning processes and in producing accurate and reliable data for performance measures.

Treasury is currently engaged in updating and extending the Treasury Strategic Plan through 2005, and will be specifically addressing high-risk areas, major management challenges, and cross-cutting goals in the FY 2001 performance plan.

The IRS Strategic Plan and Budget, which includes the Annual Performance Plan, satisfies a major requirement of the GPRA. However, due to the IRS' modernization efforts the performance measures are being re-evaluated. Several years may be required before the IRS can fully adopt a balanced performance measurement system that will focus on three major areas: business results, customer satisfaction, and employee satisfaction.

Part 2

Financial Statements and Notes

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Department of the Treasury
Consolidated Balance Sheet
As of September 30, 1999
(In Millions)

ASSETS	
Entity Assets:	
Intra-governmental Assets	
Fund Balance (Note 2)	$58,041
Loans Receivable & Related Interest Owed by Other Federal Agencies (Note 3)	43,966
Due from the General Fund (Note 10)	20,044
Other Intra-governmental Assets	168
Total Intra-governmental Assets	122,219
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	22,018
Loans Receivable & Related Interest, Net (Note 3)	7
Investments and Related Interest (Note 4)	4,574
Reserve Position in the International Monetary Fund (Note 6)	19,982
Investments in International Financial Institutions (Note 7)	5,076
Inventories and Related Property, Net (Note 8)	424
Property, Plant & Equipment, Net (Note 9)	2,658
Other Assets	178
Total Entity Assets	177,136
Non-Entity Assets:	
Intra-governmental Assets	
Fund Balance (Note 2)	2,584
Due from the General Fund, Net (Note 10)	5,356,011
Accounts Receivable & Related Interest, Net	737
Advances to the Black Lung Trust Fund (Note 11)	6,259
Loans Receivable & Related Interest Owed by Other Federal Agencies, Net (Note 3)	155,772
Total Non-Entity Intra-governmental Assets	5,521,363
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	59,659
Gold & Silver Reserves (Note 12)	11,026
Tax/Trade, Other Non-entity Receivables, and Related Interest, Net (Note 13)	24,446
Other Assets	72
Total Non-Entity Assets	5,616,566
Total Assets	$5,793,702

The Accompanying Notes are an Integral Part of these Statements.

Department of the Treasury
Consolidated Balance Sheet
As of September 30, 1999
(In Millions)

LIABILITIES	
Liabilities Covered by Budgetary Resources	
Intra-governmental Liabilities	
Loans Payable and Related Interest (Note 14)	$15,337
Other Intra-governmental Liabilities Covered by Budgetary Resources	474
Total Intra-governmental Liabilities Covered by Budgetary Resources	15,811
Certificates Issued to Federal Reserve Banks (Note 15)	7,200
Allocations of Special Drawing Rights (Note 5)	6,799
Gold Certificates Issued to Federal Reserve Banks (Note 12)	11,000
Refunds & Drawbacks	1,669
DC Pension Liability (Note 16)	4,020
Other Liabilities	2,726
Total Liabilities Covered by Budgetary Resources	49,225
Intra-governmental Liabilities - Not Covered by Budgetary Resources	
Federal Debt & Interest Payable (Note 17)	1,984,038
Other Intra-governmental Liabilities Not Covered by Budgetary Resources	63
Total Intra-governmental Liabilities Not Covered by Budgetary Resources	1,984,101
Federal Debt & Interest Payable (Note 17)	3,647,904
DC Pension Liability (Note 16)	3,764
Other Liabilities	1,330
Total Liabilities Not Covered by Budgetary Resources	5,637,099
Net Position (Note 19)	107,378
Total Liabilities & Net Position	$5,793,702

Commitments & Contingencies (Note 18)

The Accompanying Notes are an Integral Part of these Statements.

Department of Treasury
Consolidated Statement of Net Cost
For the Year Ended September 30, 1999
(In Millions)

Costs:	Combined	Elimination	Consolidated
Program A			
Economic: Promote Prosperous and Stable American and World Economies			
Intragovernmental Costs	$121	($1)	$120
With the Public	2,357		2,357
Total	2,478		2,477
Less Earned Revenues	3,618	(825)	2,793
Net Program Costs	(1,140)		(316)
Program B			
Financial: Manage the Government's Finances			
Intragovernmental Costs	$6,878	(2,338)	$4,540
With the Public	10,082		10,082
Total	16,960		14,622
Less Earned Revenues	6,922		6,922
Net Program Costs	10,038		7,700
Program C			
Law Enforcement: Protect Our Financial Systems and Our Nation's Leaders and Foster a Safe and Drug Free America			
Intragovernmental Costs	$872		$872
With the Public	2,103		2,103
Total	2,975		2,975
Less Earned Revenues	83		83
Net Program Costs	2,892		2,892
Costs not assigned to programs:			
Reimbursable Costs Incurred for Other Treasury Sub-organizations	492	(492)	0
Other	612		612
Total	1,104		612
Less earned revenues not assigned to programs:			
Reimbursements Earned from Other Treasury Sub-organizations	492	(492)	0
Other	251		251
Total	743		251
NET COST OF TREASURY OPERATIONS	$12,151		$10,637
FEDERAL DEBT INTEREST COSTS	355,536	(932)	354,604
LESS INTEREST REVENUE FROM LOANS	11,347	(2,339)	9,008
NET FEDERAL DEBT INTEREST COSTS	344,189		345,596
OTHER FEDERAL COSTS	10,057	(13)	10,044
NET COST OF OPERATIONS AND FEDERAL DEBT INTEREST	$366,397		$366,277

Note 20 - Provides additional cost information by Treasury Component.

The accompanying notes are an integral part of these statements.

Department of the Treasury
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 1999
(In Millions)

Net Cost of Operations	($366,277)
Non-Exchange Revenues and Financing Sources	
Appropriations Used	$316,112
Revenue from Forfeiture	145
Imputed Financing Sources	3,040
Finances Source for Accrued Interest & Discount on the Debt	63,745
Transferred in	195
Transferred out	(12,579)
Other - Note 24	919
Total Financing Sources	371,577
Net Results of Operations	5,300
Prior Period Adjustments (Note 19)	1,581
Net Change in Cumulative Results of Operations	6,881
Increase in Unexpended Appropriations	21,409
Change in Net Position	28,290
Net Position as of 10/1/98	79,088
Net Position as of 9/30/99	$107,378

Note 23 - Provides the Combining Statement of Changes in Net Position by each Treasury reporting component.

The accompanying notes are an integral part of these statements.

Department of Treasury
Combined Statement of Budgetary Resources
As of September 30, 1999
in Millions

Budgetary Resources	
Budget Authority	$320,513
Unobligated Balance	43,430
Spending Authority from Offsetting Collections Earned	8,967
Adjustments	(3,042)
Total Budgetary Resources	369,868
Status of Budgetary Resources	
Obligations Incurred	324,108
Unobligated Balances Available	43,820
Unobligated Balances Not Available	1,940
Total Budgetary Resources	369,868
Outlays	
Obligations Incurred	324,108
Spending Authority from Offsetting Collections and Adjustments	(9,781)
Obligated Balance, Net-Beginning of the Period	8,628
Obligated Balance, Net-End of Period	(8,041)
Total Outlays	$314,914

The accompanying notes are an integral part of these statements.

Department of Treasury
Combined Statement of Financing
As of September 30, 1999
(In Millions)

Obligations and Nonbudgetary Resources	
Obligations Incurred	$324,108
Less: Spending Authority from Offsetting Collections and Adjustments	(9,781)
Imputed Financing	3,053
Financing Source for Accrued Interest & Discount on the Debt	63,745
Transfers-in (out)	(12,571)
Exchange Revenue Not in the Budget	(91)
Other	(662)
Total Obligations as Adjusted and Nonbudgetary Resources	367,801
Resources Not Funding Net Cost of Operations	
Change in Undelivered Orders	(46)
Change in Unfilled Customer Orders	(42)
Capitalized Costs	(1,085)
Financing Sources that Fund Costs of Prior Periods	(17)
Other	810
Total Resources Not Funding Net Costs of Operations	(380)
Costs Not Requiring Resources	
Depreciation and Amortization	504
Revaluation of Assets and Liabilities	(1,754)
Other	167
Total Costs Not Requiring Resources	(1,083)
Financing Sources Yet to Be Provided	59
Net Cost of Operations	$366,397

NOTE: The Combined Statement of Financing does not include intra-agency eliminations.

The Accompanying Notes are an integral Part of these Statements.

Department of the Treasury
Consolidated Statement of Custodial Activity
Year Ended September 30, 1999
(In Millions)

SOURCES OF CUSTODIAL REVENUE & COLLECTIONS

REVENUE RECEIVED	
Individual & FICA Income Taxes	$1,588,202
Corporate Income Taxes	216,021
Estate and Gift Taxes	28,386
Excise Taxes	72,068
Duties	19,055
Fees, and Licenses	1,641
Unemployment Taxes	6,650
Federal Reserve Earnings	25,917
Fines, Penalties, Interest & Other Revenue	6,705
TOTAL REVENUE RECEIVED	1,964,645
Less payments from permanent, indefinite appropriations for refunds of taxes and duties (including related interest), duty drawback, and earned income credit	(186,262)
NET REVENUE RECEIVED	1,778,383
Accrual Adjustment	(5,797)
TOTAL REVENUE	1,772,586
DISPOSITION OF REVENUE RECEIPTS	
Amounts Provided to Non-Federal Entities	302
Amounts Provided to Fund the Federal Government	1,778,081
Accrual Adjustment	(5,797)
Total Disposition of Custodial Revenue & Collections	1,772,586
Net Custodial Revenue Activity	$0

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. *Summary of Significant Accounting Policies*

A. Reporting Entity

The Department was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts have figured in the development of the Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the Federal Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and tax policy; fiscal policy; governing the fiscal operations of the Government; maintaining foreign assets control; managing the Federal debt; overseeing the law enforcement functions carried out by the Department; managing the development of financial policy; representing the United States on international monetary, trade and investment issues; overseeing Departmental overseas operations; and directing the activities of the Department in manufacturing coins, currency, and other products for customer agencies and the public.

The Department is comprised of Departmental Offices, International Assistance Programs, the Office of Inspector General, the Treasury Forfeiture Fund, the Exchange Stabilization Fund, the Federal Financing Bank, the Financial Crimes Enforcement Network, and the Community Development Financial Institutions Fund, as well as the following eleven bureaus: Bureau of Alcohol, Tobacco and Firearms; Office of the Comptroller of the Currency; U.S. Customs Service; Bureau of Engraving and Printing; Federal Law Enforcement Training Center; Financial Management Service; Internal Revenue Service; U.S. Mint; Bureau of the Public Debt; U.S. Secret Service; and Office of Thrift Supervision.

The accompanying financial statements reflect the activities of the U.S. Department of the Treasury. The Department's financial statements reflect the reporting of its own entity activities which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performes on behalf of the Federal Government and others. Non-entity activities include the collection of Federal revenue, servicing the Federal debt, disbursing certain Federal funds, and maintaining certain assets and liabilities for the Federal Government as well as for others.

Revenues, expenses, assets, and liabilities resulting from transactions between the various Treasury entities for both entity and non-entity activities have been eliminated in preparing the accompanying consolidated financial statements. Non-entity and entity activity eliminated on the Department's balance sheet includes investments and debt of $20 billion. It also includes loans and borrowings of $29 billion. In terms of revenue and expenses $3.3 billion was eliminated between entity and non-entity activities

This differs from the presentation of the Department's FY 1998 financial statements. For FY 1998, the Department did not eliminate these entity/non-entity activities from its statements.

B. Basis of Accounting & Presentation

The financial statements have been prepared from the accounting records of Treasury in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, as amended. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by Treasury, pursuant to OMB directives that are used to monitor and control Treasury's use of budgetary resources.

These financial statements are provided to meet the requirements of the Government Management Reform Act. They consist of the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, the combined statement of financing, and the consolidated statement of custodial activity; all of which are prescribed by OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements, as amended.

While these financial statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

C. Tax/Trade and Other Non-entity Receivables

Tax/Trade receivables are not accrued until related tax returns are filed, assessments are made, and prepayments are netted against liabilities. Accruals are made to reflect penalties and interest on tax/trade receivables through the balance sheet date. Further, there are differences in recording assessments that should be reported on the balance sheet (tax/trade receivables) and those that should be disclosed as compliance assessments and write-offs. A summary of each category follows:

Tax/Trade Receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which the Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of the Department. Tax/Trade receivables are shown on the balance sheet net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible.

Compliance Assessments are unpaid assessments in which neither the taxpayer nor a court has affirmed that the taxpayer owes amounts to the Federal Government. Examples include assessments resulting from an audit or examination in which the taxpayer does not agree with the results of the audit or examination. These assessments are not reported in the financial statements. However, statutory provisions require that these accounts be maintained until the statute date for collection expires.

Write-offs consist of unpaid assessments on which the Department does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency. These amounts are not reported on the balance sheet as they are deemed uncollectible. However, statutory provisions require that these accounts be maintained until the statute for collection expires.

Other non-entity accounts receivable and related interest are recognized for amounts due to the Federal Government. These amounts include interest outstanding on monies deposited in Federal Reserve Banks. It also includes amounts Federal agencies owe to the Federal Government for the payment of water and sewage service; a payment made by the Department on behalf of the Federal Government. Also recorded as other non-entity receivables are certain loans made to foreign governments.

D. Investments

Investments are stated at amortized cost, which is an approximation of fair value. Premiums and discounts on investments are amortized using the straight line and effective interest methods.

Investments are adjusted to market value if Treasury intends to sell the security prior to maturity or there is a reduction in value of the security that is more than temporary.

E. Inventories and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. The Department utilizes various accounting methods to account for inventory and operating supplies which approximates historical costs. All operating materials and supplies are recorded as an expense when consumed in operations.

Recognition of revenue from the forfeiture of property is deferred until the property is sold, or transferred to a state, local, or federal agency, or to a foreign government. Revenue is not recorded if the forfeited asset is ultimately destroyed, such as counterfeit property.

F. Loans and Interest Receivable - from Other Federal Agencies

Intra-governmental entity Loans and Interest Receivable, from other Federal agencies, represent loans and interest receivable held by the Department. No subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because these are guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from Other Federal Agencies represent loans issued by the Department to Federal agencies on behalf of the Federal Government. The Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Department's intermediary role in issuing these loans, the Department does not record an allowance or subsidy costs related to these loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the Federal agency who issues the loans.

Property Plant and Equipment

The Department's property, plant and equipment is recorded at cost and is depreciated using the straight line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred.

The Department is comprised of many bureaus that are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy uses ranges rather than setting specific capitalization thresholds. The Department's capitalization policy permits the management of each of the Department's bureaus to select an appropriate capitalization threshold within the range of $25,000 minimum and $50,000 maximum. The Department also uses ranges for bulk purchases: $250,000 minimum and $500,000 maximum for non-manufacturing bureaus and $25,000 minimum and $50,000 maximum for manufacturing bureaus. Bureaus determine the individual item cost that will be applied to bulk purchases. In addition, the Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

H. Federal Debt

Debt and associated interest is reported on the accrual basis of accounting. Certain debt securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using the effective interest method for zero coupon bonds and the straight-line method, which is not materially different from the effective interest method, for other securities.

Appropriations used to pay the interest expense of the debt is recognized only to the extent of the cash disbursement on the statement of changes in net position. Because the department recognizes appropriations used only to the extent of the cash disbursement, the Department reports in a similar fashion the obligations incurred for the interest expense on the Statement of Budgetary Resources. This differs from the amounts that the Department reports to the Office of Management and Budget on the SF 133, Report on Budget Execution. On this OMB report, the Department reports obligation incurred for the cash disbursement and the accrual of the interest expense.

I. Pension Costs, Other Retirement Benefits, and Other Post Employment Benefits

The Department recognizes the full costs of its employees' pension benefits, however, the liability associated with these costs are recognized by Office of Personnel Management (OPM) rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributed 8.51 percent for regular CSRS employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into affect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Department contributed 10.7 percent for regular FERS employees.

Similar to Federal retirement plans, (OPM) rather than the Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. As a result of SFFAS No. 5, the Department is required to report the full cost of providing other retirement benefits (ORB). In addition, SFFAS No. 5 also requires the Department to recognize an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

Additionally, the Department's Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) separately sponsor certain benefit plans for their employees. OCC sponsors a life insurance benefit plan for current employees who are not enrolled in FEGLI plans. This plan is a defined benefit plan, and OCC is fully responsible for the associated liability. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. DC Pension Fund

The Balanced Budget Act of 1997, which became effective on October 1, 1997, provides that the Secretary of the Treasury assume certain responsibilities for the District of Columbia pension system, including administration of fund assets and distribution of pension benefits. To varying degrees the Secretary is responsible for three District retirement programs:

- Police Officers and Firefighters Retirement Program
- Teachers Retirement Program
- Judges Retirement Program

For the Police Officers, Firefighters and Teachers, the Secretary acting on behalf of the Federal Government is required to pay for benefits earned prior to and on June 30, 1997. The District Government is responsible for paying benefits earned after June 30, 1997. For the Judges, the Secretary, acting on behalf of the Federal Government, is required to pay for benefits earned both before and after June 30, 1997.

In April 1999, the actual amount of assets (FY 1998 balances were estimates) that were to be transferred to the Federal Government, pursuant to the Act, was determined. Based on the asset split, individual securities were identified to be transferred to the Department and the assets segregated on April 30, 1999. Beginning in May 1999 and extending through September 30, 1999, most assets transferred to the Federal Government had been liquidated and the proceeds invested in Government Account Series Securities.

K. Certificates Issued to Federal Reserve Banks

Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

L. Allocation of Special Drawing Rights

Allocation of Special Drawing Rights are valued as of September 30, 1999, using current exchange rates which approximate their fair value. Footnote Number 5 "Cash, Foreign Currency, and Other Monetary Assets" provides additional information regarding how the allocations are valued.

M. Federal Employee Benefits Payable - FECA Actuarial Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. In 1999, the liability was determined by the Department of Labor using the paid losses extrapolation method calculated over the next 37-year period.

N. Revenue & Financing Sources

The Department's activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). Exchange revenues are recognized when earned; i.e. goods have been delivered or services have been rendered. Non-exchange revenues are accounted for when received by the collecting entity. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Department also incurs certain costs that are paid in total or in part by other Federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Changes in Net Position as imputed financing sources equal to the cost paid by the providing entity. Other non-exchange financing sources such as donations, and transfers of assets without reimbursements also are recognized for the period in which they occurred.

The Department recognizes forfeited revenue it receives as non-exchange revenue on the Consolidated Statement of Changes in Net Position in accordance with SFFAS No. 7. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

O. Sources of Custodial Revenues and Collections

Non-entity revenue reported on the Department's statement of custodial activity includes cash collected and received by the Department. It does not include revenue collected by other Federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the Federal Government or are earmarked for certain trust funds.
Revenue from taxes and duties are recognized when cash is received.

P. Tax Assessments and Abatements

Under the IRC Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs, such as examination, under reporter, substitute for return, and combined annual wage reporting.

The Department also has authority to abate the paid or unpaid portion of an assessed tax, interest and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process (e.g., a qualifying corporation claimed a net operating loss that created a credit that can be carried back to reduce a prior year's tax liability, amended tax returns, correction of an assessment from an enforcement program, taxes discharged in bankruptcy, accepted offers in compromise, penalty abatements for reasonable cause, contested assessments made due to mathematical or clerical errors, and assessments contested after the liability has been satisfied). Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Types of Taxes

The type of taxes included on the Department's Consolidated Statement of Custodial Activity includes:

Individual Income & FICA Taxes -- Federal income and social security taxes paid under Subtitle A of the Internal Revenue Code (IRC). Pursuant to the Social Security Act, as amended by P.L. 94-202 effective January 1, 1978, Social Security taxes are collected primarily through the Federal Tax Deposit (FTD) system and remitted to the Social Security trust fund.

Corporate Income Taxes -- Federal income taxes paid by **businesses** under Subtitle A of the IRC.

Estate and Gift Taxes -- Taxes paid under Subtitle B of the IRC.

Excise Taxes -- The Department collects excise taxes for various trust funds and accounts, including the Highway Trust Fund, Airport and Airways Trust Fund, and the Mass Transit Account. Excise taxes are collected on various items including the purchase of airline tickets, gasoline products, and many others. The Department also collects excise taxes on distilled spirits and imported liquor, tobacco, and firearms.
Unemployment Taxes -- The collection of unemployment taxes under Subtitle C of the IRC is administered by the IRS. Federal unemployment taxes are also collected primarily through the FTD system and remitted to the Department of Labor's Unemployment Trust Fund.

Duties -- Amounts collected by Customs on imported goods.

Federal Reserve Earnings -- Funds deposited by the Federal Reserve Bank, from earnings on deposits. Pursuant to Sec. 16 of the Federal Reserve Act, the Federal Reserve remits earnings and deposits to the General Fund.

Fines, Penalties, Interest, and Other Revenue -- Fines assessed for violations, or late charges and interest charged for delinquent payment of taxes. Other revenue includes other miscellaneous revenue collected by the Department and deposited into the General Fund.

Disposition of Custodial Revenue Collections -- Amounts are recognized as dispositions for: (1) funds deposited to the general fund and other entities; and (2) amounts to be transferred upon collection.

Q. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax and duty refunds, duty drawbacks earned income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in some instances, reported as a custodial activity of the Department. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the resultant refunds of overpayments are not recognized by the Department as an operating expense of the Department. Consequently, to present refunds as an expense of the Department on the Statement of Net Cost with related appropriations used, would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt related activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department also receives permanent and indefinite appropriations to make payments on behalf of the United States Government. These appropriations are provided to make payments to the Federal Reserve for services provided. It includes appropriations provided to make other disbursements on behalf of the Federal Government, including payments made to various individuals as the result of claims and judgements rendered against the United States.

R. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities often incur costs that are paid in total or in part for other entities. These constitute subsidized costs which are recognized by the receiving entity. An imputed financing source is also recognized by the receiving entity. The Department of the Treasury recognized imputed costs and financing sources in fiscal year 1999 to the extent directed by the OMB.

2. *Fund Balance*

Entity

Entity fund balance includes balances which are available to pay liabilities and to finance authorized purchase commitments. In addition to amounts received from appropriations to pay salaries and expenses, fund balance also includes amounts received from appropriations to make contributions to various international financial institutions (see Note 7). As of September 30, 1999 fund balance consisted of the following (in millions):

	Entity	Non-Entity	Total
Appropriated Funds	$55,801	$958	$56,759
Trust Funds	$163	$5	$168
Revolving Funds	1,182	4	1,186
Other Fund Types	895	1,617	2,512
Total	58,041	2,584	$60,625

Entity appropriated funds include $34.9 billion in obligations for outstanding letters of credit issued to the International Monetary Fund (IMF) and Multi-lateral Development Banks (MDBs), which can draw down on these letters of credit as funds are needed.

Non-Entity

Non-entity fund balance represents unused balances of appropriations received by various Treasury entities to conduct custodial operations such as the payment of interest on the Federal debt and refunds of taxes, duties, fees, and drawbacks.

Effective October 1, 1998 interest accruals are no longer charged to Interest on Public Debt appropriation. Instead, the interest is charged to the appropriation when paid. Therefore, the interest accruals are no longer included in fund balance.

Included in both entity and non-entity fund balance are restricted amounts. Restricted amounts primarily include collections which can be used to offset certain costs of operations. However, these amounts are restricted from funding the cost of these operations until authority is granted through Appropriations Acts. The United States Customs Service reported $640 million in restricted fund balance.

3. *Loans and Interest Receivable*

Loans and interest receivable represent loans held by the Department arising from its own operations (entity) and loans held on behalf of the Federal Government (non-entity).

Entity

As of September 30, 1999 intra-governmental loans and interest receivable consisted of the following (in millions):

Agency Loans Purchased	$15,139
Direct Loans Purchased	6279
Guaranteed Loans	21865
Interest Receivable, Intra-governmental Loans	910
Less Discount	-1
Less Allowance on Loans & Interest Receivable	-226
Total Entity Loans Receivable - Intra-governmental	$43,966

Agency loans purchased are either notes or pools of loans sold by Federal agencies in the form of certificates representing shares of ownership in the loan pool. The selling agencies guarantee the principal and interest repayments on the notes or certificates. Guaranteed loans are loans made to non-federal borrowers whose obligation to repay the principal and interest is guaranteed by a federal agency.

As of September 30, 1999, loans and interest receivable from non-federal entities consisted of the following (in millions):

Direct Loans	11
Less Allowance/Subsidy Cost	-4
Total Entity Loans Receivable	$7

Non-Entity

Non-entity loans and interest receivable represent loans managed by the Department on behalf of the Federal Government. The Department is responsible for collecting these loans and transferring the proceeds to the General Fund. These loans are provided to Federal agencies.

As of September 30, 1999, non-entity loans and interest receivable consisted of the following (in millions):

	Loans Receivable	Interest Receivable	Total
Federal Direct Student Loan Program	$52,070	$0	$52,070
Disaster Loan Fund	9,404	579	9,983
Rural Electrification and Telecommunication Fund	9,585	5	9,590
Commodity Credit Corporation	29,563	569	30,132
Rural Housing Insurance Fund	7,802	-	7,802
Federal Housing Administration	7,996	-	7,996
Housing for the Elderly and Handicapped	4,628	203	4,831
Export Import Bank	6,603	425	7,028
Other	25,085	1,255	26,340
Total	$152,736	$3,036	$155,772

4. *Investments and Related Interest*

Entity

Most of the Department investments are with the Exchange Stabilization Fund. Securities that the Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts.

As of September 30, 1999 entity investments consisted of the following (in millions):

Type of Investment	Cost	Amortized (Premium)/ Discount	Investment Net	Interest Receivable	Investment Balance
Investment					
Japanese T- Bills	$3,004	$0	$3,004	$0	$3,004
German Bonds	1,272	-18	1,254	31	1,285
German BUBIlls	261	2	263	2	265
Other	20	0	20	0	20
Total Non-Federal	$4,557	($16)	$4,541	$33	$4,574

Market value of these investments as of September 30, 1999 was as follows:

Japanese T- Bills	$3,005
German Bonds	1256
German BUBIlls	263
Other	19
Total	$4,543

5. *Cash, Foreign Currency, and Other Monetary Assets*

Entity

Entity cash, foreign currency, and other monetary assets primarily includes foreign currency denominated assets (FCDA), special drawing rights (SDR), and forfeited cash. SDRs and FCDAs are valued as of September 30, 1999, using current exchange rates. The amounts held as of September 30, 1999 were as follows (in millions):

Cash	$22
Foreign Currency	
European Euro	5,705
Japanese Yen	5,828
Other Monetary Assets	
Special Drawing Rights	10,342
Other	121
Entity Total	$22,018

Other includes U.S. dollars restricted for use by the International Monetary Fund, and are maintained in two accounts at the Federal Reserve Bank of New York.

Certain operations of the Department result in the holding of various FCDAs. The foreign currency holdings are normally invested in interest bearing assets issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, except for foreign currencies under swap agreements with developing countries, were valued at $9 billion as of September 30, 1999. Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As of September 30, 1999, FCDAs with maturities greater than three months were valued at $2.5 billion.

The SDR is an international reserve asset created by the International Monetary Fund (IMF). It was created as a supplement to existing reserve assets, and on several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDR department. The value as a reserve asset derives, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European Euro (components consist of the French and German weights), the Japanese yen, and the pound sterling. The Department's SDR holdings and allocations are revalued monthly based on the SDR valuation rate calculated by the IMF.

During Fiscal Year (FY) 1999, the Department purchased, at the prevailing rates, $707.2 million equivalent of SDRs received from the IMF by the General Fund of the U.S. Government as remuneration (interest) on the U.S. reserve position in the IMF, and paid the General Fund $3.7 million in FY 1999, in interest on dollars due the General Fund in return for SDRs received as remuneration. In addition, during FY 1999, the Department sold and purchased $1,225 million and $444 million, respectively, equivalent of SDRs with participating members.

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are resources unless:

a. canceled by the Board of Governors based on an 85 percent majority decision of the total voting power of the Executive Board of the IMF;
b. the SDR Department of the IMF is liquidated;
c. the IMF is liquidated; or
d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Department's liability related to the SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981, the IMF has made no further allocations of SDRs. As of September 30, 1999, the amount of SDR allocations was the equivalent of $6.8 billion.

Non-Entity

Non-entity cash, foreign currency, and other monetary assets includes the Operating Cash of the Federal Government, managed by the Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromise which are maintained as the result of the Department's law enforcement and tax collecting responsibilities. The amounts held as of September 30, 1999 were as follows (in millions):

Operating Cash of the Federal Government	$59,372
Undistributed Cash/Offers in Compromise	203
Seized Monetary Instruments	54
Foreign Currency	28
Other	2
Non-Entity Total	$59,659

The Operating Cash of the Federal Government represents balances from tax collections, customs duties, other revenues, federal debt receipts, time deposits, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts.

The Operating Cash of the Federal Government includes compensating balances, totaling $5.6 billion as of September 30, 1999. These balances are deposited interest free to compensate commercial banks for services provided on behalf of the Federal Government (such as handling over the counter deposits for federal program agencies, providing lockbox services for agency collection programs, etc.).

Seized Monetary Instruments and Seized Property

Seized property as defined by SFFAS No. 3, *Accounting for Inventory and Related Property,* includes monetary instruments, real property, and tangible personal property of others in the actual constructive possession of the custodial agency. The Department seizes monetary instruments and property in terms of the definition provided by SFFAS No. 3 as the result of tax, forfeiture, criminal, and other enforcement actions. Seized property (including currency and monetary instruments) is recorded at its market value at the time of the seizure. The value is determined by the seizing organization and is usually based on market analysis such as third party appraisal, standard property value publications or bank statements.

The Department held $54 million in seized currency as of September 30, 1999. Of this amount $7 million was held as the result of tax and criminal enforcement actions and $47 million was held as the result of the Treasury Forfeiture Fund Program.

The Department, through the Treasury Forfeiture Fund Program, seizes property such as real property, and tangible personal property of others that is in actual, constructive, or custodial possession of the Department, resulting from the enforcement of Federal law. Also included in seized property are prohibited items. Prohibited items are items with no legal market value in the United States and which will not be sold. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited property are retained by the Department until final disposition.

The following tables provide detailed information about the Department's seized monetary instruments and property in relation to the Department's Forfeiture activities. Seized Currency on the Analysis of Change in Seized Assets includes $47 million reported on the Balance Sheet. It also includes investments of seized currency of $253 million.

Analysis of Change in Seized Assets
(In Thousands)

Type of Asset	Balance	Seizures	Remissions a/	Forfeitures	Adjustments b/	Value Change c/	Balance 9/30
(1) Currency	$423,167	$234,419	($107,329)	($257,360)	$6,548	$749	300,194
(2) Other Monetary Instruments	15,498	5,844	(4,845)	(6,592)	1,998	44	11,947
(3) Real Property	88,804	24,829	(13,241)	(16,937)	(2,447)	(8,126)	72,882
(4) General Property	133,656	211,742	(162,312)	(21,294)	14,031	(6,376)	169,447
(5) Vessels	5,735	7,152	(2,957)	(6,770)	(309)	(800)	2,051
(6) Aircraft	2,267	34,394	(27,428)	(1,246)	917	343	9,247
(7) Vehicles	18,550	65,150	(48,138)	(15,804)	2,016	(2,937)	18,837
(8) Prohibited Property	---	---	---	---	---	---	---
(9) Total Seized Assets	$687,677	$583,530	($366,250)	($326,003)	$22,754	($17,103)	$584,605

Analysis of Change in Number of Seized Assets

Type of Asset	Balance	Seizures	Remissions a/	Forfeitures	Adjustments b/	Balance 9/30
(1) Currency	(d)					(d)
(2) Other Monetary Instruments	(d)					(d)
(3) Real Property	352	119	(60)	(111)	(34)	26
(4) General Property	10,661	23,068	(9,789)	(12,866)	880	11,95
(5) Vessels	125	144	(42)	(136)	(6)	85
(6) Aircraft	20	22	(19)	(8)	-	15
(7) Vehicles	3,065	11,114	(4,398)	(7,346)	(215)	2,220
(8) Prohibited Property	31,764	82,934	(1,667)	(69,464)	(169)	43,398
(9) Total Seized Assets	45,987	117,401	(15,975)	(89,931)	456	57,93

a/ Remissions include seized items which were classified as prohibited, but subsequently returned to the owner once a legal right to possess the item was established. Examples include firearms or controlled substances obtained by prescription.

b/ Adjustments - include reclassification of property categories and minor adjustments to beginning balances. Additionally, adjustments include property turned over to state and local or other Federal Law enforcement agencies for prosecution or destruction prior to forfeiture.

c/ Value Change - is an adjustment to reflect the net value change of a seized asset from the initial appraisal to the latest appraisal. This could result in either a positive or negative change.

d/ Inconsistent methods have been used to record the number of seizures of currency and other monetary instruments. Therefore, numbers provided would not be compiled from a uniform base, and accordingly, are not provided.

6. *Reserve Position in the International Monetary Fund*

The IMF was established in 1945 with the mission of restoring international monetary cooperation and promoting a sound and growing world economy. For nearly thirty years, its operational focus was on maintaining exchange rate stability through the "par value" system, based on gold. With the second amendment of the Articles of Agreement, that focus shifted to the promotion of exchange stability through the maintenance of orderly exchange arrangements, with greater emphasis given to the surveillance of fundamental economic policies, including exchange rate policies.

The United States participates in the IMF, as do other members, through a quota subscription paid partly in the form of reserve assets such as foreign currencies or SDRs and partly through making dollars available as needed by the IMF. The reserve assets provided, plus any use by the IMF of its holdings of dollars, give rise to a counterpart U.S. claim on the IMF. This represents the U.S. reserve position in the IMF. The Reserve Position in the International Monetary Fund is revalued monthly based on the SDR valuation rate calculated by the IMF, and an unrealized gain or loss on revaluation is recognized. The dollar portion of the U.S. quota subscription is "held" by the IMF through its accounts at the Federal Reserve Bank of New York in the name of the IMF. A small portion, approximately 1/4 of one percent of the U.S. quota, is maintained in the form of cash balances, subject to minimum and maximum amounts, in an operational account used in conjunction with the IMF's transactions with other member countries. The vast bulk of the IMF's dollar "holdings" are maintained in the form of a letter of credit issued by the Treasury. The U.S. Quota in the IMF is SDR 37.1 billion, valued at $51.6 billion as of September 30, 1999. The U.S. quota was increased on February 3, 1999 pursuant to the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999 (P.L. 105-277). The U.S. consented to an increase of SDR 10.6 billion. The quota includes the following amounts (in millions):

Net Assets in the International Monetary Fund	
*Letter of Credit	$31,449
U.S. Dollars Held by the IMF	121
Reserve Position	19,982
U.S. Quota In the IMF	$51,552

* This amount is included as entity obligated appropriated funds under Note 2.

The IMF Articles of Agreement provide that a member country must maintain the value of its currency held by the IMF, which carries all currencies held in terms of the SDR. If necessary, as a result of depreciation of the dollar against the SDR, the United States is required to make a maintenance of value payment after the close of the IMF's fiscal year, April 30, with respect to dollars held by the IMF. Deferred gains and losses are accrued by the Department based on the IMF's Summary Statement of Position. When the dollar appreciates (depreciates) against the SDR, the IMF (the United States) incurs an obligation to make payments to the U.S. (IMF). Budget authority is provided for making such U.S. payments in years when the maintenance of value adjustment requires an increase in the amount of the IMF's dollar holdings, but such payments take the form of adjustments to the letter of credit and do not result in any immediate cash transfer to the IMF. At April 30, 1999, the appreciation of the dollar against the SDR resulted in a gain to the Department which decreased the IMF's letter of credit by $317.5 million.

The Appropriations Used line item on the Statement of Changes in Net Position reflects the transfer of assets between the letter of credit and reserve position. Transfers to the letter of credit are recorded as reduction to Appropriations Used.

The IMF pays remuneration to the United States quarterly for use of its currency. The total amount of remuneration payments received during FY 1999 was $686 million and is recorded as custodial revenue received. In 1986, the IMF developed a burden-sharing mechanism to share the potential cost of loan losses between borrower and creditor members. For creditor members such as the United States, the IMF calculates a reduction in the quarterly remuneration paid, subject to a specific floor, for their burden-sharing portion. The total burden-sharing reduction to remuneration amounts to the United States during FY 1999 was $29 million.

The IMF has established a number of financial facilities which are potentially available to all members. The Enhanced Structural Adjustment Facility was created to provide assistance on concessional terms to low-income developing country members with protracted payment problems. This facility is financed through loans and other contributions by IMF members rather than by quota resources. In Fiscal Year (FY) 1999 the Department contributed $21.7 million for this facility. This contribution represents an expense to the Department. Additionally, at September 30, 1999, $26 million is available to the Enhanced Structural Adjustment Facility in the form of a letter of credit.

To supplement the general resources available to the IMF, the U.S. and certain other members created the General Arrangements to Borrow (1962) and the New Arrangements to Borrow (1998). To activate these loans, the Secretary of the Treasury must first certify to Congress that supplementary resources are needed to forestall or cope with an impairment of the international monetary system and the IMF has fully explored other means of funding. A loan to the IMF was made under GAB during FY 1998 and NAB during FY 1999. The IMF repaid these loans on March 11, 1999. During FY 1999, the Department recorded a total of $21 million in custodial interest revenue receipts. As of September 30, 1999, entity Fund Balance with Treasury included $9.3 billion in appropriated funds for GAB and NAB.

The budgetary treatment of the United States quota in the IMF and of U.S. participation in borrowing arrangements pursuant to the GAB and NAB differs from normal budget accounting. A key feature of this treatment is that while transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because these transactions constitute an exchange of monetary assets for which the United States receives an interest-bearing, liquid claim on the IMF that it may encash in case of a balance of payments need. As a result, the Department does not recognize the U.S. quota in the IMF and U.S. participation in the GAB and NAB as budgetary resources in the Combined Statement of Budgetary Resources. FY 1999 "actual" amounts related to the quota and borrowing arrangements reported in the FY 2001 Budget of the United States include:

*New budget authority - $14.8 billion for the quota increase and $3.5 billion for the NAB approved for FY 1999;

*Unobligated balance available, end of year - $19.2 billion for the reserve position and $9.7 billion for the GAB and NAB;

*Obligated balance, end of year - $31.4 billion representing the quota amount available to the IMF in the Letter of Credit

7. *Investments in International Financial Institutions*

The Department participates in Multi-lateral Development Banks (MDBs) to support poverty reduction, private sector development, transition to market economies and sustainable economic growth and development, thereby advancing the United States, economic, political, and commercial interest abroad. The MDBs consist of the World Bank Group, five regional development banks and the Global Environment Facility.

Most of the contributions to financial institutions involve investments in MDBs. The Department has the lead in negotiating the establishment and replenishment of resources for these financial institutions through multi-lateral agreements. These agreements specify the financial elements, underlying provision of resources, and longer-term policy framework within which these resources will be used. Congress appropriates funds for capital subscriptions and contributions to the multi-lateral development accounts in foreign operations appropriation acts. These appropriations were $1.5 billion in FY 1999. Appropriations can be used for three types of transactions: paid-in capital, callable capital, and replenishments (concessional loans/grants). Paid-in capital is the capital stock the U.S. buys with U.S. currency or a convertible currency. No dividends are received; however, on occasion, there have been net income transfers to the concessional loan programs. Callable capital is issued not for money, but for the good faith commitment of the member to pay in cash upon request by the bank. Callable capitaLsubscriptions are subject to call, under limited circumstances, only when required to meet the obligations of the respective MDBs created by borrowing. To date, there has not been, nor is there anticipated to be, a call on capital subscription. For this reason, beginning in fiscal year 1981, callable capital was no longer appropriated. Congress provided for callable capital through the use of program limitations in appropriation legislation instead of appropriations. Amounts previously appropriated for callable capital totaled $6.5 billion and is included in the Appropriated Funds line item balance as part of Entity Fund Balance with Treasury. Replenishments are funds provided to the banks for their concessional lending operations. These contributions are not expected to be paid back to the U.S. Rather, repayments of the concessional loans go back to the concessional window for further lending, thus reducing the burden on the member countries for future replenishments. FY 1999 contributions to the MDBs were $1.5 billion.

U.S. payments to MDBs are made by cash transfers, non-interest-bearing letters of credit, or a combination of the two. The Department authorizes both the cash payments and letters of credit issued to the institutions. The Federal Reserve Bank of New York administers the letters of credit.
The Department currently values its investments in these financial institutions for paid in capital at cost. Contributions to these international financial institutions for paid-in capital are reported as investments.

As of September 30, 1999, investments in international financial institutions consisted of the following (in millions):

Inter-American Development Bank	$1,326
Asian Development Bank	392
International Bank for Reconstruction & Develop.	1,985
African Development Bank	135
Multilateral Investment Guarantee Agency	22
European Bank for Reconstruction & Development	392
North American Development Bank	174
International Buffer Stocks	80
International Finance Corporation	570
Total	**$5,076**

8. Inventories and Related Property, Net

Inventories and related property includes inventories, operating materials and supplies, and forfeited property held by the Department, that as of September 30, 1999 are as follows (in millions):

Inventories and Related Property	
Inventories, Net	$313
Materials and Supplies	84
Forfeited Property	27
	$424

Inventories, Net

The Department's manufacturing entities, the Bureau of Engraving and Printing (BEP) and the United States Mint, maintain inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items are included in inventory costs, and are recorded as cost of goods sold upon delivery to customers. The Financial Management Service also holds inventory for check processing activities. These inventories as of September 30, 1999 are as follows (in millions):

INVENTORY CATEGORY	Acquisition Cost	Allowance For Losses	Inventory Net
Inventory held for current sale	$316	($3)	$313

Composition of Inventory	
Raw Material & Supplies	$194
Work in Process	74
Finished Goods	45
Total	$313

Operating Materials and Supplies, Net

The Department's operating materials and supplies primarily consist of aircraft and marine parts used to repair and maintain aircraft and vessels for enforcement related activities. Operating materials and supplies are also maintained for the production of bureau products. As of September 30, 1999, operating materials and supplies was as follows (in millions):

Composition of Materials:

	Amount
(1) Held for Use	$84

Forfeited Property, Net

As a consequence of enforcing various laws, certain property is seized by the Department's enforcement bureaus. The seized assets may be subsequently forfeited to the government through abandonment or administrative or judicial procedures. Information concerning seized assets activity can be found under footnote five, Cash Foreign Currency and Other Monetary assets. As of September 30, 1999 forfeited property held by the Department was as follows (in thousands):

Property held for sale	$29
Property to be shared with Federal, state or local, or foreign governments	1
Total Forfeited Property (Gross) 9/30/99	$30
Less: allowance for mortgages and claims on Property held for sale	(3)
Total Forfeited Property (Net) 9/30/99	$27

Forfeited property is recorded at estimated fair value at the time of seizure. However, based on historical sales experiences for the year, properties are adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayers liability is recorded when title to the property passes to the Federal Government and a corresponding credit is made to the related accounts receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets..

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and are reflected as a reduction of sales of forfeited property.

Also included in forfeited property are prohibited items. Prohibited items are items with no legal market value in the United States and which will not be sold for export. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited property are retained by the Department until final disposition.

The following schedule presents the changes in the forfeited property balances from October 1, 1998 to September 30, 1999 (in thousands):

	10/1/98 Financial Statement Balance		Adjustment		10/1/98 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	$17,538	-----	$0	-----	$17,538	-----	$257,360	-----	($258,232)	-----	($4,170)	-----
Other Monetary Instruments	259	0	66	0	325	0	6,592	0	(5,388)	0	(646)	0
Real Property	16,407	141	2,399	0	18,806	141	16,937	111	(16,862)	(111)	(565)	(4)
General Property	3,702	4,370	13,591	0	17,293	4,370	21,294	12,866	(22,456)	(3,268)	(2,088)	(1,403)
Vessels	573	45	191	0	764	45	6,770	136	(5,485)	(78)	(547)	(17)
Aircraft	190	1	(25)	0	165	1	1,246	8	0	0	(864)	(6)
Vehicles	4,687	1,488	666	0	5,353	1,488	15,804	7,346	(11,279)	(6,664)	(3,474)	(252)
Prohibited Items	-----	17,767	-----	(132)	-----	17,635	-----	69,464	-----	0	-----	(3,048)
Total Forfeited Property (Gross)	$25,818	23,812	$16,888	(132)	$42,706	23,680	$68,643	89,931	($61,470)	(10,121)	($8,184)	(4,730)
Grand Total	$43,356	23,812	$16,888	(132)	$60,244	23,680	$326,003	89,931	($319,702)	(10,121)	($12,354)	(4,730)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		Fair Value Adjustment		9/30/99 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	$0	-----	$0	-----	$409	-----	$361	-----	$0	-----	$13,266	-----
Other Monetary Instruments	0	0	0	0	565	0	0	0	(161)	0	1,287	0
Real Property	0	0	0	0	3,711	30	107	0	(2,822)	0	19,312	167
General Property	0	0	(172)	(8,169)	(135)	(142)	(900)	0	(10,025)	0	2,811	4,254
Vessels	0	0	(13)	(36)	(16)	2	(87)	0	(257)	0	1,129	52
Aircraft	0	0	0	0	(80)	1	0	0	70	0	537	4
Vehicles	0	0	(4)	(13)	(287)	(2)	(118)	0	(1,400)	0	4,595	1,903
Prohibited Items	-----	0	-----	(62,037)	-----	855	-----	0	-----	0	-----	22,869
Total Forfeited Property (Gross)	$0	0	($189)	(70,255)	$3,758	744	($998)	0	($14,595)	0	$29,671	29,249
Less Allowance											($2,804)	
Total Forfeited Property (Net)											$26,867	29,249
Grand Total	$0	0	($189)	(70,255)	$4,167	744	($637)	0	($14,595)	0	$40,133	29,249

Value change is an adjustment to reflect the net value of a forfeited asset from the initial appraisal to the latest appraisal. This could result in a positive or negative change.

The **fair value** adjustments above are necessary to convert forfeited property from unadjusted carrying value (market value at the time of seizure) to an estimate of the fair value at the time of forfeiture, which is the amount recorded in the financial statements. Other adjustments primarily represent property forfeited in prior fiscal years but reversed to seized status during the current fiscal year. Due to the varied mix of specific types of assets within each asset category, the number of items presented in the 10/1/98 balance represent quantities calculated using many different units of measure. Due to the use of different units of measure, within each asset category, the usefulness of this quantity disclosure is questionable. In FY 1999, in order to present a more meaningful quantity, the number presented for each class of property represents the number of seizure line items recorded regardless of the unit of measure of quantity. **Other adjustments** above primarily represent minor reclassifications or adjustments to beginning balances.

9. *Property, Plant and Equipment, Net*

As of September 30, 1999, property, plant and equipment consists of the following (in millions):

	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land	N/A	N/A	$19	$0	$19
Structures, Facilities	S/L	3-50 yrs	486	(183)	303
ADP Software	S/L	2-10 yrs	69	(18)	51
Equipment	S/L	2-20 yrs	1,056	(591)	465
Assets under Capital Lease	S/L	2-25 yrs	243	(84)	159
Construction in Progress	N/A	N/A	149	0	149
Aircraft	S/L	12-20 yrs	419	(198)	221
ADP Equipment	S/L	3-5 yrs	973	(97)	876
Vessels	S/L	5-10 yrs	29	(23)	6
Vehicles	S/L	6 yrs	70	(49)	21
Other	S/L	2-30 yrs	441	(53)	388
Total	N/A	N/A	$3,954	($1,296)	$2,658

* N/A -Not Applicable

The Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties.

The Treasury Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Complex is treated as a heritage asset and is expected to be preserved indefinitely. Accordingly, it is not capitalized.

10. *Due from the General Fund, Net*

The Department is responsible for managing various assets and liabilities on behalf of the Federal Government. Assets managed by the Department on behalf of the General Fund includes cash, silver reserves, loans, advances, and tax/trade receivables. In terms of liabilities, the Department manages the Federal Debt as well as tax refunds on behalf of the Federal Government.

Because these assets and liabilities belong to the Federal Government, the Department does not report the net related effect of these transactions in net position. Instead, the Department reports this net effect in the account, "Due from the General Fund." As of September 30, 1999, Due from the General Fund (Net) included the following (in millions):

Liabilities Requiring Funding From the General Fund	
Federal Debt & Interest Payable	$3,647,904
Federal Debt & Interest Payable - Intragovernmental	1,984,038
Refunds & Drawbacks	1,420
Other Liabilities	267
Total - Due From the General Fund	5,633,629
Less Amounts to be Distributed to the General Fund	
Fund Balance	(1,730)
Advances to the Black Lung Trust Fund	(6,259)
Cash, Foreign Currency and Other Monetary Assets	(59,423)
Gold & Silver Reserves	(26)
Loans & Interest Receivable - Intragovernmental (Entity & Non-Entity)	(184,954)
Accounts Receivable - Intragovernmental	(738)
Tax/Trade and Other Non-Entity Receivables	(24,421)
Other Assets	(67)
Total - Due to General Fund	($277,618)
	$5,356,011

In addition to $5,356 billion reflected above, the Department also reports as an entity asset "Due from the General Fund" for $20 billion. The $20 billion represents investments held by ESF and other reporting entities that were eliminated against Federal Debt.

On the balance sheet the Department reported $24,446 million in Tax/Trade receivables. However, only $24,421 million is reported as due to the General Fund. The remaining Tax/Trade receivables reflects amounts which will be paid to others outside the Federal government.

In addition, on the balance sheet the Department reported $156 billion in non-entity loans and interest receivable. However, on the chart above $185 billion is reflected as due to the general fund. The difference is attributed to $29 billion in intra-Treasury loans and borrowings being eliminated on the balance sheet. Because this amount was eliminated, the Department is reporting $29 billion of the $44 billion in entity intra-governmental receivables as a payable to the general fund.

11. Advances to the Black Lung Trust Fund

Advances have been provided to the Black Lung Trust Fund from the General Fund pursuant to 26 USC 9501, and are used to carry out the purposes of this trust fund. The principal and interest on these advances are to be repaid to the General Fund when the Secretary of the Treasury determines that monies are available in the Black Lung Trust Fund for such purposes. Interest is charged from the date funds are advanced to the trust fund. As of September 30, 1999, these advances and accrued interest totaled $6,259 million.

12. Gold & Silver Reserves, and Gold Certificates Issued to Federal Reserve Banks

The Department is responsible for safeguarding most of the Federal Government's gold and silver reserves in accordance with 31 USC 5117. The Consolidated Balance Sheet also reflects gold being held in the Federal Reserve Bank of New York.

Gold Reserves being held by the Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve as provided under 31 USC 5117. Since 1934, Gold certificates have been issued in non-definitive or book-entry form to the Federal Reserve. The Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Department at the legal standard value established by law. Upon issuance of gold certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the Federal Government. Therefore, all of the Department's certificates issued are payable to the Federal Reserve.

Absent any historical cost records to determine the acquisition cost of the gold and silver over several decades, the statutory rates of $42.2222 per fine troy ounce (FTO) for gold and $1.2929292 per FTO for silver are used to value the entire custodial reserves held by the Mint. As of September 30, 1999, the Gold and Silver Reserves consisted of the following:

	FTO's	Statutory Rate	Statutory Value (Millions)	Market Value	Market Value (Millions)
Gold	247,078,556	$42.2222	$10,432	$299.00	$73,876
Gold Held by Federal Reserve Banks & in Transit	13,450,413	$42.2222	568	$299.00	4,022
Subtotal - Gold	260,528,969		11,000		77,898
Silver	19,836,748	1.2929292	26	$5.57	111
Total Gold and Silver Reserves			$11,026		$78,009

13. Tax/Trade and Other Non-Entity Receivables, and Related Interest, Net

Tax/trade and other non-entity accounts receivable includes receivables from tax assessments, custom duties, excise taxes, fees, penalties, and interest assessed and accrued, reduced by an estimate for uncollectible amounts. Also included in non-entity receivables are earnings due on monies deposited in Federal Reserve Banks as follows (in millions):

Tax Trade Receivable, Gross	$78,393
Receivable, Deposit of Earnings, Federal Reserve	499
Other Receivables & Interest	2,025
Total Tax/Trade Other Non-Entity Receivables - Gross	80,917
Allowance	(56,471)
Total Tax/Trade Receivable Other Receivables Net	$24,446

An allowance for doubtful accounts was established for the difference between the gross receivables and the portion deemed collectible. The portion of tax/trade receivables estimated to be collectable and the allowance for doubtful accounts are based on projections of collectibility from a statistical sample of taxes receivable. The Department does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

IRS Federal taxes receivable constitute the largest portion of the receivables. IRS Federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and the Service, or the courts.

Other Receivables includes certain loans and credits issued by the United States to various foreign governments. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, and the U.S. Government has not waived or renounced its rights with respect to any of them. All such loans and credits remain due and payable. This balance includes loans and credits to the Russian Federation. In August 1999, [various] creditor countries in the Paris Club, including the United States, agreed in principle to reschedule or refinance outstanding debt owed by the Russian Federation. The detailed rescheduling arrangements for the debt owed to the United States have not been concluded.

14. Loans Payable & Interest

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 8.75 percent to 9.25 percent, and the maturity dates range from June 30, 2003 to June 30, 2005. As of September 30, 1999, loans payable consisted of $15,337 owed to Civil Service Trust Fund.

15. Certificates Issued to Federal Reserve Banks

The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other exchange stabilization fund operations. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary of the Treasury may determine.

As of September 30, 1999, the amount of certificates outstanding was $7,200 million while the value of SDR holdings and related interest was $10,342 million, for a difference of $3,142 million.

16. DC Pension Liability

On October 1, 1997, the Department took full responsibility (assets and liabilities) for certain District of Columbia retirement plans. Pursuant to the Balanced Budget Act (the Act) of 1997, the Secretary established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund), which includes the retirement plans for the District of Columbia's police, firefighters, and teachers; and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund).

Treasury assumed responsibility for benefits earned both prior to and after June 30, 1997 for the judges and benefits earned prior to June 30, 1997 for the police, firefighters, and teachers. The Act also established the Federal Supplemental District Pension Fund (the Supplemental Fund) that shall be used for the accumulation of funds in order to finance obligations of the Federal Government for benefits and necessary administrative expenses under the provision of this Act. At the end of each applicable fiscal year, the Secretary shall promptly pay into the Supplemental Fund from the General Fund an amount equal to the annual amortization amount and the covered administrative expenses for the year. The amount paid into the Supplemental Fund from the General Fund during fiscal year 1999 was $278.4 million.

As of September 30, 1999, the assets of the three funds were approximately $4.0 billion, and liabilities were $7.8 billion, resulting in an unfunded liability of $3.8 billion. The actuarial liability is based upon assumptions selected by the U.S. Treasury. The assumptions used were an annual rate of investment return of 5.5%, salary increases at an annual rate of 3.5%, and inflation and cost-of-living adjustments at 2.5%.The costs incurred by the plans for the year are included in the statement of net costs.

17. Federal Debt & Interest Payable

The Department is responsible for administering the Federal Debt on behalf of the Federal Government. The Federal Debt includes borrowings from the public as well as borrowings from Federal agencies. The Federal Debt managed by the Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development. The Federal Debt as of September 30, 1999 is as follows (in millions):

Intra-governmental

Beginning Balance	$1,732,911
New Borrowings*	220,071
Premium/Discount	(1,676)
Interest Payable, Not Covered by Budgetary Resources	32,732
Total, Not Covered by Budgetary Resources	$1,984,038

*New Borrowings (Intra-governmental) - represent the net increase in amounts borrowed.

Owed to the public

Beginning Balance	$3,760,864
New Borrowings	2,159,772
Repayments	(2,252,525)
Premium/Discount	(62,796)
Interest Payable, Not Covered by Budgetary Resources	42,589
Total, Not Covered by Budgetary Resources	$3,647,904

Debt held by the public approximates the federal government's competition with other sectors in the credit markets. This affects interest rates and private capital accumulation.

In contrast, debt held by Federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e. excess of receipts over disbursements plus accrued interest). Debt held by Federal entities does not have any of the economic effects of borrowings from the public. It is not a current transaction of the government with the public; it does not compete with the private sector for available funds in the credit markets. It reduces the need to borrow from the public and so may hold down interest rates. Unlike debt held by the public, debt held by federal entities does not represent an immediate burden on current taxpayers. Rather it is a claim on future resources. The surplus is held in Treasury securities which gives the Federal entities a claim on the Federal Government, equal to the value of those securities. When the securities have to be redeemed, the Department must come up with the cash. Actions that could be taken to meet these cash needs include lowering spending, increasing taxes, and increasing borrowings from the public.

Federal Debt Held by Federal Agencies

Certain Federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the Federal Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the Federal Government. The vast majority are non-marketable securities issued mostly at par value. Most non-marketable debt securities are issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for Government Account Securities in fiscal year 1999 was 6.8 percent.

The Federal Debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The investments held, at par value, by the various Federal agencies as of September 30, 1999 are as follows (in millions):

SSA: Federal Old-Age and Survivors Insurance Trust Fund	$762,226
OPM: Civil Service Retirement and Disability Fund	465,640
DOD: Military Retirement Fund	141,274
HHS: Federal Hospital Insurance Trust Fund	153,767
SSA: Federal Disability Insurance Trust Fund	92,666
DOL: Unemployment Trust Fund	77,358
HHS: Federal Supplementary Medical Insurance Trust Fund	26,528
FDIC: The Bank Insurance Fund	28,359
DOT: Highway Trust Fund	28,083
OPM: Employees' Life Insurance Fund	20,755
RRB: Railroad Retirement Account	22,347
HUD: FHA) Liquidating Account	14,942
VA: National Service Life Insurance Fund	11,954
Nuclear Waste Disposal Fund	15,195
Other Programs and Funds	91,888
Total Federal Debt Held By Federal Entities, Par Value	$1,952,982

* These amounts include marketable Treasury securities as well as Government Account Series (GAS) securities as follows (in millions):

	GAS Securities	Marketable Treasury Securities	Total
Civil Service Retirement and Disability Fund, Par Value	$464,561	1,079	$465,640
Federal Disability Insurance Trust Fund, Par Value	$92,622	44	$92,666
Unemployment Trust Fund, Par Value	$77,358	0	$77,358

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Defense (DOD);

Department of Health and Human Services (HHS); Department of Labor (DOL); Federal Deposit Insurance Corporation (FDIC); Department of Transportation (DOT); Railroad Retirement Board (RRB); ; Department of Housing and Urban Development (HUD); Department of Veterans Affairs (VA).

Federal Debt Held by the Public

As of September 30, 1999, Federal Debt held by the Public consisted, at par value, of the following (in millions):

Securities	Par Value	Average Interest Rates	Term
Treasury Bills	653,165	5%	1 Year Or Less
Treasury Notes	1,896,427	6%	More Than 1 Year - 10 Years
Treasury Bonds	667,359	8%	More Than 10 Years
Total Marketable	3,216,951		
Non-Marketable	451,160	6%	On Demand to More Than 10 Years
Total Federal Debt Held by the Public	$3,668,111		

Marketable bills are issued at a discount and repaid at the par amount of the security upon maturity. The average interest rate on a Treasury Bill represents the average effective yield on the security.

Marketable notes and bonds are issued as long term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value, or at an amount that reflects a discount or a premium. The average interest rate represents the stated interest rate adjusted for any discount or premium. As of September 30, 1999, marketable notes include $67,589 million of Inflation Indexed Notes and the marketable bonds included $24,776 million of Inflation Indexed Bonds.

Non-Marketable securities primarily consist of $186,333 million in U.S. Savings Securities, $168,091 million in securities issued to State and Local Governments, $30,970 million in Foreign Series Securities, and $29,995 million Domestic Series Securities. Non-marketable securities are issued at both par and discounted values. The average interest rate on the non-marketable securities represents the weighted effective yield.

18. Commitments, Contingencies, Risks, and Other Risks

At September 30, 1999, the Department recorded a total probable liability of $161 million that is included in other liabilities. The $161 million primarily *Includes amounts reported by the US Customs Service, Alcohol Tobacco and Firearms, and the Financial Management Service.*

Customs recorded a probable liability of $52.1 million as of September 30, 1999, of which $47.7 million would be funded by Customs and $4.4 million from various claims and judgement funds maintained by Treasury. Further, Customs Counsel determined that it is reasonably possible that Customs will be liable for an additional $216.9 million as of September 30, 1999, of which $178.6 million would be funded by Customs and $38.3 million from various claims and judgement funds managed by Treasury on behalf of the Federal Government. Of the probable liability of $52.1 million Customs reported as of September 30, 1999, $47.1 million was related to contingencies for trade litigation.

On July 27, 1999 the U.S. Court of Appeals for the Federal Circuit affirmed the Court of International Trade decision that merchandise processing fees are eligible for drawback relating to claims for commercially interchangeable merchandise. Only the merchandise processing fees for entries associated with drawback claims filed on or after July 27, 1999 are being considered eligible for drawback.

Additionally, the Department has been involved with litigation involving the collection of Harbor Maintenance Fees. Customs collects Harbor Maintenance Fees which are used for the maintenance of U.S. harbors. The collections are recorded in the Harbor Maintenance Fee Trust Fund. During FY 1998, the Supreme Court ruled that the assessment of a Harbor Maintenance Fee on exports violates the United States Constitution. Collections received during the judgement period totaled $1.1 billion.

Harbor Maintenance refunds are available to claimants who must follow procedures set by the Court of International Trade. The procedures require the filing of a claim by the claimant and a review and approval of the Court. Refunds began being issued during FY 1999 from Federal Account 20X1807, Refund of Moneys Erroneously Received and Covered, based on claims submitted by claimants and approved by the Court of International Trade. This account is managed by the Financial Management Service for the Federal Government. total refunds issued during fiscal year 1999 totaled $696 million. Unpaid claims received and/or approved by the Court of International Trade total $52.6 million, and are recorded as other payables at September 30, 1999. Amounts collected during the judgment period and still available for refund, subject to the receipt of a valid claim approved by the U.S. Court of International Trade, totaled $332.3 million at September 30, 1999. As claims have yet to be submitted against this amount, no accrual for this amount has been recorded in the financial statements.

The contingent liability reported by ATF represents administrative tort and employee claims brought against ATF. It also includes lawsuits filed under the Federal Tort Claims Act and the Freedom of Information Act, in addition to various attorney fee applications/petitions, which counsel has identified as a probable liability that would be referred to the Judgement Fund for payment. ATF also identified a $31 million liability as reasonably possible resulting largely from personnel and EEO cases, in addition to administrative tort and employee claims, contract/patent infringement and tax claims, as well as Federal Tort Claims Act lawsuits, brought against ATF. The chart below provides a summary of the Departments contingent liabilities and the Harbor Maintenance liability as follows (in millions):

Entity	Not Covered by Budgetary Resources Probable &Estimatable	Covered by Budgetary Resources Probable &Estimatable	Total
Customs	$5	$47	$52
Alcohol Tobacco and Firearms	11	0	11
Harbor Maintenance Liability, Financial Management Service	0	53	53
Other	45	0	45
Total	$61	$100	$161

There are numerous legal actions pending against the United States in the U.S. Court of Federal Claims where the claims may be based on action taken by FMS. Management intends to vigorously contest all such claims. Management thinks, based on information provided by legal counsel, that loses, if any, would not have a material impact on the financial statements of FMS. Therefore, no loss accrual has been made of these cases as of September 30, 1999.

One case of note is Cobell, et al. v. Babbit, et al. -- In this case, Native Americans allege that the Departments of Interior and Treasury have breached trust obligations with respect to management of the Individual Indian Monies (IIM) deposit fund. The plaintiffs have not made claims for specific dollar amounts however, their claims are complex, and if an unfavorable decision against Treasury is rendered, a material loss could be incurred.

The Department may enter into swap agreements with other countries that provide for drawings of dollars by those countries and/or drawings of foreign currencies by the Department. Any balances the Department may hold under such agreements are generally held for other than trading purposes. The Department is exposed to credit risk on foreign currency agreements in the event of default by counter parties only to the extent they are reported on the Consolidated Balance Sheet. Market risk occurs as a result of fluctuations in currency exchange rates.

The Department is not exposed to market risk on foreign currency agreements, because, under these agreements, the Department will receive an agreed upon amount in dollars upon maturity regardless of fluctuations in currency exchange rates. As of September 30, 1999, there were the following swap agreements with foreign governments or central banks as follows:

> In April 1994, Treasury signed the North American Framework Agreement, which includes an Exchange Stabilization Agreement (ESA), with Mexico. The ESA provides for a $3 billion standing swap line. The amounts and terms (including the assured source of repayment) of any new borrowings under the North American Framework Agreement would need to be negotiated. There were no drawings outstanding on these agreements as of September 30, 1999. On December 14, 1999, both agreements were renewed for another year.
>
> A 1978 $1 billion swap line with Germany was permitted to expire in December 1998 in light of the formation of the European Central Bank on January 1, 1999. No drawings were made under this agreement during fiscal year 1999.

The Department enters into guarantee agreements with lenders and/or investors that provide for repayment of all or part of the principal and/or interest on certain debt obligations of a borrower and/or issuer. The Department is exposed to credit risk on guarantees in the event that it has to honor a guarantee and is unable to recover from the borrower amounts advanced under the guarantee. As of September 30, 1999, there was the following guarantee agreement held by the Department.

> On November 6, 1998, Treasury agreed the United States would commit to guarantee up to $5 billion from the ESF to participate in a multilateral guarantee of a $13.2 billion Bank for International Settlement (BIS) Credit Facility for Brazil. The termination date for the BIS credit facility is the later of (1) December 14, 1999 or (2) the date on which each drawing or rollover under the agreement is repaid in full. Any drawing or rollover by Brazil under the BIS Credit Facility shall mature not later than the date of Brazil's final repurchase under the IMF's Supplemental Reserve Facility.
>
> During fiscal year 1999, Brazil made two drawings on the BIS Credit Facility. These drawings were on December 18, 1998 and April 9, 1999 for $4.15 billion and $4.5 billion, respectively, in which ESF's share of the guarantee were for $1.6 billion and $1.7 billion, respectively. In this regard, the Treasury Department authorized the Federal Reserve Bank of New York to invest ESF's share of the guarantee in Treasury non-marketable securities on behalf of Treasury on those dates. On June 18 1999, Brazil repaid approximately 30 percent of the December 1998 drawing and the BIS paid the United States a $35.5 million commission. On September 30, 1999, ESF's share of the guarantee under the BIS Credit Facility totaled $2.8 billion. Subsequent to fiscal year end, on December 20, 1999, Brazil repaid the remaining balance of the December 1998 drawing. On October 12, 1999, Brazil also repaid approximately 30 percent of the April 1999 drawing reducing ESF's share of the guarantee of this drawing to $1.2 billion. The BIS paid the United States a total of $82.7 million in commissions.

The Department has subscribed to additional capital for certain multi-lateral development banks (MDBs), portion of which are callable. However, these subscriptions are callable under certain limited circumstances to meet the obligations of the respective MDBs. There has never been, nor is there anticipated, a call on the Department's subscriptions. As of September 30, 1999 U.S. callable capital in MDBs is as follows (in millions):

	Callable Capital
Inter-American Development Bank	$27,502
Asian Development Bank	6,352
International Bank for Reconstruction & Development	29,966
African Development Bank	947
Multilateral Investment Guarantee Agency	178
European Bank for Reconstruction and Development	1,063
North American Development Bank	1,275
Total	$67,283

In addition to the callable portion of the U.S. capital stock in the International Bank for Reconstruction and Development, an additional $5.7 billion has been authorized by Public Laws 79-171 and 86-48 to be available for borrowing by the Bank under a borrowing authority in the event the Bank is unable to meet its commitments. Any borrowing made by the Bank would be exchanged for callable capital stock of the Bank.

19. Net Position

As of September 30, 1999, Net position consisted of the following (in millions):

	Revolving Funds	Trust Funds	Appropriated. Funds	Special Funds	Total
Unexpended Appropriations					
Unobligated-Available	$203	$88	$16,953	$5	$17,249
Unobligated-Unavailable	239	0	973	0	1,212
Obligations/Undelivered Orders	6	64	37,554	0	37,624
Total Unexpended Appropriations	448	152	55,480	5	56,085
Cumulative results of Operations	28,415	(4,213)	25,907	1,184	51,293
Total Net Position	28,863	(4,061)	81,387	1,189	$107,378

Unexpended Appropriations. Represents the amount of spending authorized as of year-end that is unliquidated or unobligated and had not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired. The amount reported for undelivered orders in this note is different than the amount reported on the Combined Statement of Budgetary Resources. The difference is attributed to the Balance Sheet being prepared on a consolidated basis versus the Statement of Budgetary Resources being prepared on a combined basis.

Cumulative Results of Operations. Represents the net results of operations since inception plus the cumulative amount of prior period adjustments, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and expenses for contingent liabilities. Also included in cumulative results of operations are prior period adjustments. Prior period adjustments primarily involved accounting corrections related to prior year activity; including, D.C. Pensions for $252 million, and IRS' revaluation of property for $643 million.

20. *Consolidated Statement of Net Costs & Net Costs of Treasury Sub-organizations*

The Department's Consolidated Statement of Net Cost displays information both on a combined and a consolidated basis. The complexity of the Department's organizational structure and operations requires that supporting schedules be included in the notes to the financial statements. The supporting schedules provide consolidating information which fully displays the costs of each sub-organization.

The programs displayed on the Department's Consolidated Statement of Net Cost are equivalent to the missions identified in the Department's FY 1997-2002 Strategic Plan.

The classification of sub-organizations has been determined in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to the Department-wide programs is the result of using the following cost assignment methods: (1) direct costs; (2) cause and effect; and (3) cost allocation.

The Department's FY 1997-2002 Strategic Plan includes a management mission. Costs related to the management mission are not displayed as a separate program. The rationale is that the strategic plan (for fiscal years 1997-2002) does not consider the Management Mission to be programmatic. In addition, SFFAS No. 4, recognizes that "A reporting entity and its segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of the organization costs, and they should be reported on the entity's financial statements (such as the Statement of Net Cost) as costs not assigned to programs." Accordingly, high level general management and administrative support costs are displayed as costs not assigned to programs. Costs not assigned to programs also include non-production costs (costs that are linked to events other than the production of goods and services) that cannot be assigned to one of the programs.

In addition, Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs not assigned to programs by providing sub-organizations. This is because such costs are reported by sub-organizations, which receive the goods and/or services, as program costs. Accordingly, such costs are eliminated in the consolidation process. To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

The Department's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred on behalf of the Federal Government (payments made to/by the Judgment Fund, the Resolution Funding Corporation, the District of Columbia, etc.). These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve intra-Departmental transactions.
The following combining tables present the gross costs, earned revenue, and net costs for each program by sub-organization of the Department for the year ended September 30, 1999. Also presented are the gross costs, earned revenue, and net costs by sub-organization for the line items, "Cost not Assigned to Programs," for the year ended September 30, 1999 (in millions):

Economic: Promote Prosperous and Stable American and World Economies

Suborganization	Program/ Costs				
	Intragovernmental	With the Public	Total Costs	Earned Revenues	Net /Total Program Costs
Departmental Offices	$13	$28	$41	$0	$41
Exchange Stabilization Fund	4	234	238	3080	(2842)
Alcohol Tobacco and Firearms	5	52	57	0	57
Bureau of Public Debt	3	13	16	0	16
Office of the Comptroller of the Currency	55	361	416	394	22
Office of Thrift Supervision	14	143	157	143	14
Community Development Financial Institution Fund	3	72	75	1	74
Treasury International Assistance Programs	24	1454	1478	0	1478
Totals	$121	$2,357	$2,478	$3,618	($1,140)

Financial: Manage the Government's Finances

Suborganization	Intragovernmental	With the Public	Total Costs	Earned Revenues	Net /Total Program Costs
Departmental Offices	$3	$16	$19	$0	$19
Federal Financing Bank	4,847	0	4,847	3,712	1,135
Alcohol Tobacco and Firearms	5	58	63	1	62
U.S. Customs	520	1,069	1,589	86	1,503
Internal Revenue Service	993	6,837	7,830	22	7,808
Financial Management Service	296	102	398	112	286
Bureau of Public Debt	56	243	299	5	294
Bureau of Engraving and Printing	59	481	540	567	(27)
U.S. Mint	99	1,276	1,375	2,417	(1,042)
Totals	$6,878	$10,082	$16,960	$6,922	$10,038

Law Enforcement: Protect Our Financial Systems and Our Nation's Leaders, and Foster a Safe and Drug Free America

Suborganization	Intragovernmental	With the Public	Total Costs	Earned Revenues	Net /Total Program Costs
Departmental Offices	$99	$8	$107	$0	$107
Alcohol Tobacco and Firearms	34	361	395	29	366
U.S. Customs	328	493	821	26	795
Financial Crimes Enforcement Network	3	23	26	0	26
Federal Law Enforcement Trainining Center	8	99	107	19	88
Internal Revenue Service	71	491	562	9	553
Treasury Forfeiture Fund	144	43	187	0	187
Secret Service	185	585	770	0	770
	$872	$2,103	$2,975	$83	$2,892

Cost Not Assigned to Programs

Suborganization	Costs		Earned Revenues		Net /Total
	Intra-Treasury Reimbursable	Other	Intra-Treasury Reimbursable	Other	Unassigned Costs
Departmental Offices	$197	$216	$197	$19	$197
Franchise Fund	33	99	33	101	(2)
Alcohol Tobacco and Firearms	36	87	36	0	87
U.S. Customs Service	102	0	102	0	0
Financial Crimes Enforcement Network	1	0	1	0	0
Federal Law Enforcement Training Center	6	0	6	0	0
Internal Revenue Service	74	0	74	130	(130)
Secret Service	21	0	21	0	0
Financial Management Service	19	0	19	0	0
Bureau of Public Debt	3	0	3	0	0
Community Development Financial Institution Fund	0	3	0	0	3
DC Pension Fund	0	207	0	1	206
Total	$492	$612	$492	$251	$361

Supporting Schedule -- by Suborganization
Net Cost of Operations
Year Ended September 30, 1999
(In Millions)

Suborganization	Net/ Total Program Costs	Net/ Total Unassigned Costs	Total Net Costs
Departmental Offices	$167	$197	$364
Exchange Stabilization Fund	(2,842)	0	(2,842)
Federal Financing Bank	1,135	0	1,135
Franchise Fund	0	(2)	(2)
Alcohol Tobacco and Firearms	485	87	572
U.S. Customs Service	2,298	0	2,298
Financial Crimes Enforcement Network	26	0	26
Federal Law Enforcement Training Center	88	0	88
Internal Revenue Service	8,361	(130)	8,231
Treasury Forfeiture Fund	187	0	187
U.S. Secret Service	770	0	770
Financial Management Service	286	0	286
Bureau of the Public Debt	310	0	310
Office of the Comptroller of the Currency	22	0	22
Office of Thrift Supervision	14	0	14
Bureau of Engraving and Printing	(27)	0	(27)
U.S. Mint	(1,042)	0	(1,042)
Community Development Financial Institutions Fund	74	3	77
Treasury International Assistance Programs	1,478	0	1,478
DC Pension Fund	0	206	206
Total	$11,790	$361	$12,151

21. Pricing Policies - Exchange Revenues

A portion of the earned revenue displayed on the Department's Statement of Net Cost is generated by the provision of goods or services to the public or to other Federal entities.

Other than as described below, exchange revenues resulting from work performed for other Treasury sub-organizations or Federal entities represent reimbursements for the full costs incurred by the performing entity. Reimbursable work between Federal appropriations is subject to the Economy Act (31 U.S.C. 1535). Prices associated with revenue earned from the public are based on recovery of full cost or are set at a market price.

The Federal Law Enforcement Training Center (FLETC) receives appropriated funds to cover the portions of the cost of basic training provided to Federal, state and local law enforcement officers. FLETC charges tuition to recover the full cost of training and labor related to advanced training. FLETC does not recover the full cost of training and labor related to basic training of Federal law enforcement officers. FLETC recovers the full cost of food & lodging and miscellaneous expenses associated with both basic and advanced training. FLETC charges prices which recover the full cost of training private and foreign law enforcement officers

22. Total Cost and Earned Revenue by Federal Budget Functional Classification

The following information supports the Statement of Net Cost in the consolidated financial statements of the United States Government. The Department's Statement of Net cost is prepared using an elimination methodology which eliminates the revenue and expenses of the provider of intra-Treasury services. This differs from the elimination methodology used to prepare the United States Government Statement of Net Cost . Accordingly, the difference (approximately $3 million) between total Net Cost on the Department's statement and this note is related to the difference in elimination methodology. The difference is mainly attributable to a building that the United States Customs Service is constructing for ATF. In FY 1999, capitalized costs of $3 million related to the building. On the Department's statement of net cost, Customs eliminated both the cost incurred for and the revenue received from ATF. For the United States Government Statement of Net Cost, only the Customs' revenue is recognized as an elimination because no provision is made to eliminate capitalized purchases on the Government-wide Statement of Net Cost.

Budget Functions	Agency Gross Cost	Agency Exchange Revenue	Agency Net Cost
Education and Training -	$285	$0	$285
Income Security -	0	0	-
Veterans Benefits -	298	0	298
Energy -	0	0	-
Commerce and Housing -	571	516	55
Community and Regional Development	74	0	74
Net Interest -	360,602	9,008	351,594
International Affairs -	1,715	2,277	(562)
Administration of Justice -	4,026	124	3,902
General Government -	17,766	7,132	10,634
Total Net Cost	$385,337	$19,057	$366,280

Budget Functions	Gross Cost Public	Gross Cost Governmental	Intradepartmental Eliminations (Negatives)	Inter-departmental Amounts Included in Agency Gross Cost	Agency Gross Cost
Education and Training -	285	0	0	0	285
Income Security -	0	0	0	0	0
Veterans Benefits -	298	0	0	0	298
Energy -	0	0	0	0	0
Commerce and Housing -	503	70	(2)	68	571
Community and Regional Development -	72	2	0	2	74
Net Interest -	232,416	129,118	(932)	128,186	360,602
International Affairs-	1,688	27	0	27	1,715
Administration of Justice -	2,836	1,388	(198)	1,190	4,026
General Government -	12,482	7,920	(2,636)	5,284	17,766
Total Gross Cost	250,580	138,525	(3,768)	134,757	385,337

Budget Functions	Exchange Revenue Public	Exchange Revenue Governmental	Intra-departmental Eliminations (Negatives)	Interdepartmental Amounts Included in Agency Exchange Revenue	Agency Exchange Revenue
Commerce and Housing -	516	21	(21)	0	516
Net Interest -	0	11,347	(2,339)	9,008	9,008
International Affairs-	2,277	803	(803)	0	2,277
Administration of Justice -	59	230	(165)	65	124
General Government -	3,105	4,352	(325)	4,027	7,132
Total Exchange Revenue	5,957	16,753	(3,653)	13,100	19,057

23. *Combining Statement of Changes in Net Position by Sub-organization (In Millions)*

	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Franchise Fund	Alcohol Tobacco & Firearms	U.S. Customs Service	FINCEN	FLETC	Internal Revenue Service	Treasury Forfeiture Fund	U.S. Secret Service
Net Cost of Operations	$364	($2,842)	$1,135	($2)	$572	$2,298	$26	$88	$8,231	$187	$770
Non-Exchange Revenues and Financing Sources											
Appropriation Used	352	0	4,235	0	547	1,859	25	101	8,226	0	752
Revenue from Forfeiture	0	0	0	0	0	0	0	0	0	145	0
Interest Revenue	0	0	0	0	0	0	0	0	0	23	0
Imputed Financing Sources	6	0	0	3	24	106	1	3	415	0	28
Financing Sources for Accrued Interest & Discount on the Debt	0	0	0	0	0	0	0	0	0	0	0
Transferred in	0	0	0	0	0	16	0	0	0	0	4
Transferred out	0	0	0	0	0	0	0	0	(39)	0	0
Other	1	0	0	0	0	272	0	0	0	0	0
Total Financing Sources	359	0	4,235	3	571	2,253	26	104	8,602	168	784
Net Results of Operations	(5)	2,842	3,100	5	(1)	(45)	0	16	371	(19)	14
Prior Period Adjustments	0	0	0	1	0	0	0	3	643	0	4
Net Change in Cumulative Results of Operations	(5)	2,842	3,100	6	(1)	(45)	0	19	1,014	(19)	18
Increase (Decrease) in Unexpended Appropriation	59	0	239	0	17	296	(1)	5	230	0	30
Change in Net Position	54	2,842	3,339	6	16	251	(1)	24	1,244	(19)	48
Net Position -- (10/1/98)	136	24,770	(3,273)	7	112	1,446	5	162	933	344	115
Net Position -- (9/30/99)	$190	$27,612	$66	$13	$128	$1,697	$4	$186	$2,177	$325	$163

	Financial Management Service	Bureau of Public Debt	Office Comptroller of the Currency	Office of Thrift Supervision	Bureau of Engraving & Printing	U.S. Mint	CDFI	Treasury International Assistance Programs	DC Pension Fund	Combined Total	Eliminations	Consolidated
Net Cost of Operations	$10,343	$344,499	$22	$14	($27)	($1,042)	$77	$1,478	$206	$366,397	($120)	$366,277
Non-Exchange Revenues and Financing Source												
Appropriation Used	10,325	289,692	0	0	0	0	84	(92)	6	316,112		316,112
Revenue from Foreiture	0	0	0	0	0	0	0	0	0	145		145
Interest Revenue	0	0	0	0	0	0	0	0	84	107	(107)	-
Imputed Financing Sources	10	2,416	15	5	11	10	0	0	0	3,053	(13)	3,040
Financing Sources for Accrued Interest & Discount on the Debt	0	63,745	0	0	0	0	0	0	0	63,745		63,745
Transferred in	0	0	0	0	0	0	0	175	0	195		195
Transferred out	(1)	(11,533)	0	0	0	(1,018)	0	(175)	0	(12,766)	187	(12,579)
Other	31	0	0	0	0	0	0	0	615	919		919
Total Financing Sources	10,365	344,320	15	5	11	(1,008)	84	(92)	705	371,510		371,577
Net Results of Operations	22	(179)	(7)	(9)	38	34	7	(1,570)	499	5,113		5,300
Prior Period Adjustments	0	180	145	0	540	0	0	0	252	1,768	(187)	1,581
Net Change in Cumulative Results of Operations	22	1	138	(9)	578	34	7	(1,570)	751	6,881		6,881
Increase (Decrease) in Unexpended Appropriation	40	0	(139)	0	(540)	0	11	20,528	634	21,409		21,409
Change in Net Position	62	1	(1)	(9)	38	34	18	18,958	1,385	28,290		28,290
Net Position -- (10/1/98)	78	28	163	147	540	413	112	57,999	(5,149)	79,088		79,088
Net Position -- (9/30/99)	$140	$29	$162	$138	$578	$447	$130	$76,957	($3,764)	$107,378		$107,378

24. *Other Non-Exchange Revenue and Financing Sources*

Non-exchange revenue primarily includes the proceeds from the liquidations of assets transferred from the District of Columbia the Treasury's DC Pension Funds that are in excess of the 1998 estimated value of the investment transferred. It also includes certain user fees collected by the U.S. Customs Service.

25. *Adjustments to Budgetary Resources Available At the Beginning of the Year & Other Information - Statement of Budgetary Resources*

Federal agencies are required to disclose additional items related to the Statement of Budgetary Resources. The following table provides this information as required by OMB in Form and Content, OMB Bulleting 97-01 (in millions):

Net Amount of Budgetary Resources Obligated for Undelivered Orders	$7,513
Available Borrowing and Contract Authority	$5,722
Adjustments During the Reporting Period to Budgetary Resources, Available at the Beginning of the Year	$55

26. *Existence, Purpose, and Availability of Permanent, Indefinite Appropriations*

Permanent and indefinite appropriations are used to disburse tax and duty refunds, duty drawbacks, earned income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in some instances, reported as a custodial activity of Treasury. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the resultant refunds of overpayments are not available for use by the Department in its operations. Consequently, to present refunds as an expense of the Department on the Statement of Net Cost with related appropriations used, would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt related activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department receives permanent and indefinite appropriations to make payments on behalf of the United States Government. These appropriations are provided to make payments to the Federal Reserve for services provided. It includes appropriations provided to make other disbursements on behalf of the Federal Government and to include payments made to various individuals as the result of claims and judgement rendered against the United States.

27. Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

Included in cumulative results of operations for special funds is $854 million that represents Treasury's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with services performed at certain small airports or other facilities, and to retain amounts needed to offset costs associated-with collecting duties, taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. In addition, the Department is required to maintain $30 million in its User Fees Account. Part of the passenger fees in the user Fees Account, totaling approximately $640 million as of September 30, 1999 is restricted by law in its use to offset specific costs incurred by the Department and are available to the extent provided in Appropriation Acts.

In the trust fund balance, $111 million results from the Department's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Treasury relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

28. Collections of Federal Revenue

The Department collects the majority of the Federal Revenue from income and excise taxes and duties on imported goods. Collection activity, by revenue type and tax year was as follows for the fiscal year ended September 30, 1999(in millions):

	Collections Received FY 1999	Tax Year			
		1999	1998	1997	Prior Years
Individual & FICA Income Taxes	$1,588,202	$1,020,374	$547,456	$11,415	$8,957
Corporate Income Taxes	216,021	142,677	62,594	1,113	9,637
Estate and Gift Taxes	28,386	229	24,934	899	2,324
Excise Taxes	72,068	48,378	23,511	58	121
Duties	19,055	19,055	0	0	0
Fees, and Licenses	1,641	1,634	7	0	0
Unemployment Taxes	6,650	4,683	1,862	34	71
Federal Reserve Earnings	25,917	18,577	7,340	0	0
Fines, Penalties, Interest & Other Revenue	6,705	4,401	2,301	1	2
TOTAL	$1,964,645	$1,260,008	$670,005	$13,520	$21,112

Amounts reported for Corporate Income Taxes, in Tax Year 1999 include corporate taxes of $8 billion for tax year 2000. Individual income and FICA taxes, includes $44 billion in payroll taxes collected from other federal agencies. Of this amount, $9 billion represents the portion paid by the employers.

29. *Federal Tax Refund Activity*

Refund activity, broken out by revenue type and by tax year, was as follows for the fiscal year ended September 30, 1999 (in millions):

	Refunds Disbursed FY 1999	Tax Year 1999	1998	1997	Prior Years
Individual Income & FICA Taxes	$149,202	$605	$138,890	$7,239	$2,468
Corporate Income Taxes	33,840	1,455	14,271	6,268	11,846
Estate and Gift Taxes	654	1	170	287	196
Excise Taxes	1,280	196	334	57	693
Duties	1,160	409	275	92	384
Unemployment Taxes	119	0	95	15	9
Fines, Penalties, Interest & Other Revenue	7	0	4	0	3
Total	$186,262	$2,666	$154,039	$13,958	$15,599

Individual income & FICA taxes includes EITC and child tax credit refunds. The EITC was originally authorized by the Tax Reduction Act of 1975 (Public Law 94-12) and made permanent by the Revenue Adjustment Act of 1978 (Public Law 95-600). The EITC is a special credit for taxpayers who work and whose earnings fall below the established allowance ceiling. Qualified taxpayers can receive partial credit in advance in each paycheck. In FY 99 the Department issued $25.6 billion in EITC refunds, of which $95.7 million was applied to Advance EITC. An additional $4.3 billion of EITC refunds were applied to reduce taxpayer liability.

30. *Amounts Provided to Fund the Federal Government*

Revenue collected by the Department is deposited into the General Fund. The Department transferred approximately $663 billion from the General Fund to Government Trust Funds (GTF), which are available for expenditure by the responsible program agencies. The Department is responsible for managing GTFs, investing all excess trust fund collections, and liquidating securities as funds are needed. The GTFs are reported on the financial statements of the responsible program agencies.

During FY 1999 the distributions to the GTFs were as follows (in millions):

Trust Fund	Disposition of Treasury Net Tax Collections
Federal Old Age & Survivors Trust Fund	$401,179
Federal Hospital Insurance Trust Fund	140,937
Federal Disability Insurance Trust Fund	62,721
Federal Supplemental Medical Insurance Trust Fund	0
Highway and Mass Transit Trust Fund	39,190
Airport and Airway Trust Fund	10,391
Unemployment Trust Fund	6,469
Hazardous Superfund	21
Other Trust Funds	2,001
TOTAL TRUST FUNDS	$662,909

Social Security Tax Collections

The amounts disclosed above for the Social Security Trust funds (Federal Disability Insurance Trust Fund, Federal Hospital Insurance Trust Fund, and Federal Old Age & Survivors Trust Fund) are based upon estimates provided by the Social Security Administration (SSA). Treasury reviews the estimates for reasonableness. SSA later certifies actual tax collections.

Excise Tax Collections

The Department estimates monthly excise tax collections utilizing various economic models. The Department also confers with the Council of Economic Advisors and the Office of Management and Budget in developing these estimates. The estimated amounts are transferred to GTFs. Estimates are needed because taxpayers are not required by law to identify the specific taxes included in their payments. After taxpayers provide quarterly tax returns with the details of the specific taxes, IRS certifies actual collections. The Department then adjusts the GTFs for the differences between the estimates and collections.

The amounts disclosed above are based on actual collections for three quarters and estimates for the fourth quarter for those trust funds which receive excise tax collections (i.e. Highway and Mass Transit Trust Fund, Airport and Airway Trust Fund, and certain other trust funds).

31. Subsequent Events

On January 19, 2000, the Department of the Treasury issued rules in final form pursuant to 31CFR Part 375 setting out the terms and conditions by which outstanding, unmatured marketable Treasury securities may be redeemed through Treasury buying back the securities. This authority to buy back securities will enable Treasury to better manage financing needs, promote more efficient capital markets, and may lower financing costs for taxpayers. As of February 11, 2000, no outstanding, unmatured marketable securities had been redeemed through such authority.

Part 3

Management Controls

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The Secretary's Letter of Assurance

Consistent with the provisions of the Government Management Reform Act of 1994, and with the approval of the Office of Management and Budget, the Department of the Treasury has consolidated several statutorily-required reports into its Accountability Report. This is the third year the Department did not issue a separate report for the Federal Managers' Financial Integrity Act (FMFIA); instead, the results of the Department's evaluations under FMFIA for the period ending September 30, 1999 are included in this Accountability Report. Reporting under the Federal Financial Management Improvement Act (FFMIA) on the adequacy of financial management systems is also included in this section of the report.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the Department, except as noted below, can provide reasonable assurance that the objectives of Section 2 of FMFIA (internal controls) have been achieved. The Department, taken as a whole, is not able to provide reasonable assurance that the objectives of Section 4 of FMFIA (financial management systems) have been achieved. Similarly, due to the same weaknesses in financial management systems, the Department cannot state that it is in substantial compliance with the FFMIA.

Departmentwide, there are 49 material weaknesses as of September 30, 1999. The majority of these are concentrated in Internal Revenue Service (16); Financial Management Service (8); Office of the Comptroller of the Currency (6); U.S. Customs Service (6); Departmental Offices (4); and the Executive Office of Asset Forfeiture (3). Detailed information on each material weakness, including status summaries, is provided by bureau within this section of the Accountability Report.

Although 17 new material weaknesses were identified for FY 1999, 24 material weaknesses were closed and an additional five weaknesses were consolidated into one. These positive results have been made possible through: (1) a renewed emphasis on management control program responsibilities throughout the Department; (2) the increased level of senior management attention given to these issues; and (3) the conscientious efforts by the bureaus to develop responsible plans for resolving weaknesses in a timely manner. The Department has been forthcoming in identifying its weaknesses and conscientious in developing corrective actions to resolve its new and existing difficulties. I am confident that Treasury's progress will continue in FY 2000.

Sincerely,

Lawrence H. Summers

Lawrence H. Summers

Federal Managers' Financial Integrity Act & Federal Financial Management Improvement Act Compliance

Overall Results

During FY 1999, Treasury had a net decrease of eleven (11) material weaknesses. That is, while 17 new material weaknesses were identified, the Department, as a whole, was able to close twenty-four (24) weaknesses during the year and consolidated an additional 5 weaknesses into one. A total of 49 material weaknesses was outstanding as of September 30, 1999.

For the readers' benefit, the management control objectives under FMFIA are to reasonably ensure that: (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; and (v) reliable and timely information is obtained, maintained, reported and used for decision making.

Section 2 deficiencies deal with the weaknesses in overall adequacy and effectiveness of management controls within the agency, while Section 4 deficiencies deal with the non-conformances with government-wide requirements of the agency's financial management systems.

FMFIA Section 2, Management Controls

Of the 482 internal control weaknesses identified since the inception of the program (fiscal years 1983 through 1999), 449 have been corrected and closed, leaving 33 unresolved items as of September 30, 1999. Ten of the 33 unresolved weaknesses were identified during the FY 1999 review process. The nine unresolved items from prior years represent complex, systemic weaknesses, which by their nature require a protracted corrective action period. We have closed eleven management control weaknesses in FY 1999.

Number of Material Weaknesses

Period Reported	Number Reported For the First Time	For That Year, Number Corrected	For That Year, Number Still Pending
Prior Years	436	427	9
1997 Report	16	10	6
1998 Report	17	9	8**
1999 Report	13	3	10
Total	482	449*	33

* Of the total number corrected 11 were corrected in 1999.
** Three (3) Section 4 Material Non-conformances were reclassified as Section 2 Material Weaknesses for FMS.

FMFIA Section 4, Financial Management Systems

Of the 498 accounting systems non-conformances identified since the beginning of the program, 16 remain unresolved as of September 30, 1999. Four unresolved weaknesses were identified during the FY 1999 review process. In order to achieve systems modernization, many non-conformances are being resolved through the installation or modification of complex, computerized systems. We have closed thirteen financial systems non-conformances in FY 1999 and consolidated an additional five items into one.

Number of Material Weaknesses

Period Reported	Number Reported For the First Time	For That Year, Number Corrected	For That Year, Number Still Pending
Prior Years	469	461	8
1997 Report	3	2	1
1998 Report	22	19	3**
1999 Report	4	0	4
Total	498	482*	16

* Of the total number corrected 17 were corrected in 1999.

** Three (3) Section 4 Material Non-conformances were reclassified as Section 2 Material Weaknesses for FMS.

Federal Financial Management Improvement Act (FFMIA)

Among other things, the FFMIA mandates that agencies ". . . implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States government Standard General Ledger at the transaction level." FFMIA also requires that remediation plans be developed for any entity which is unable to report substantial compliance with these requirements.

Based on the results of FY 1997 financial statement audits and management assessments, it was determined that four bureaus [Internal Revenue Service (IRS), Financial Management Service (FMS), U.S. Customs Service (USCS), and the U.S. Mint] were not in substantial compliance with these requirements. Accordingly, the Department oversaw the development of remediation plans at these bureaus, and submitted remediation plans to the Office of Management and Budget (OMB) in August 1998. In addition, during FY 1999, it was determined that non-conformances exist at the U.S. Secret Service (USSS), Departmental Offices (DO), and the Office of the Comptroller of the Currency (OCC). Finally, the Executive Office of Asset Forfeiture (EOAF), a component of DO, is working with USCS on financial systems issues that contribute to EOAF's lack of substantial compliance of the Act. In the fall of 1998, the U.S. Mint successfully implemented its Consolidated Information System (COINS) as scheduled, effectively completing its remediation plan. Some of the remediation plans received to date (e.g., USCS, USSS, and IRS) require revision and/or expansion, and the Department is closely working with the affected bureaus on the development and execution of all remediation plans.

Summary of Open FMFIA Material Weaknesses and FFMIA Compliance
As of September 30, 1999

Bureau		**Number of Material Weaknesses for FMFIA Section 2**			**Number of Material Instances of Non-Conformance For FMFIA Section 4**			**Substantial Compliance with FFMIA?**	
-	**Grand Total**	Carry over from Prior Years	New This Year	Total	Carry over from Prior Years	New This Year	Total		
ATF	**0**	0	0	0	0	0	0	Yes	
BEP	**0**	0	0	0	0	0	0	Yes	
BPD	**0**	0	0	0	0	0	0	Yes	
CDFI	**0**	0	0	0	0	0	0	Yes	
USCS	**6**	4	0	4	2	0	2		No
DO	4	3	0	3	0	1	1		No
DC Pension Funds	**2**	2	0	2	0	0	0	Yes	
EOAF	**3**	0	0	0	3	0	3		No
FLETC	**1**	1	0	1	0	0	0	Yes	
FMS	**8**	3	4	7	1	0	1		No
Treasury Franchise Fund	**0**	0	0	0	0	0	0	Yes	
IRS	**16**	9	2	11	4	1	5		No
Mint	0	0	0	0	0	0	0	Yes	
OCC	**6**	0	4	4	0	2	2		No
OTS	**0**	0	0	0	0	0	0	Yes	
USSS	**3**	1	0	1	2	0	2		No
Total	**49**	**23**	**10**	**33**	**12**	**4**	**16**	**9**	**7**

Recap. of Material Weaknesses (MWs):	Section 2	Section 4	Total
Balance at the Beginning of FY99:	28	32	60
New MWs During the FY99:	13	4	17
Closed during the FY99:	(11)	(13)	(24)
Consolidated during the FY 99:	-	(4)	(4)
Reclassified during FY 99	3	(3)	0
Balance at the End of FY99:	33	16	49

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
CUSTOMS (CS-93-01)	There is a lack of control in Customs' in-bond program.	As of 9/30/1999, the "TINMAN" is fully operational including new on-line functions, new EDI In-bond capability, and automated random sampling for exams and post audit reviews. TINMAN II, due 9/30/2000, will provide reporting and analysis capabilities & better user interface.
CUSTOMS (CS-94-02)	Inability to timely restore critical systems; Lack of a disaster recovery plan	Short-term action - through 12/99 - Work to implement MOU with IRS on backup site; replace job execution software; and upgrade telecommunications network; Long-term action – To be Determined -Revise Business Impact Analysis and Disaster Recovery Plans and investment management process.
CUSTOMS (CS-95-01)	Inappropriate access to ADP files, inadequate control of emergency change process and inappropriate separation of duties.	Short-term action - through 3/2000 – Restrict programmer access to production programs; transfer security functions and duties from the Seized Assets and Case Tracking System (SEACATS) to AISSD; and fully install Endeavor software to control changes in application software.
CUSTOMS (CS-98-01)	Discrepancies exist in Customs Outbound Air Manifest Process.	Short-term action – through 2/2000 – Conduct a statistically valid national survey and review manifest procedures at airports to assure adherence to internal procedures.
Departmental Offices (DO-98-02)	Management and reporting of IRS revenue collection and related activities need improvement.	Short-term action – through 9/2000 - Treasury Deputy Chief Financial Officer (DCFO) is working with IRS on several aspects of IRS Financial management activities. Office of Financial Systems Integration (OFSI) is ensuring development of financial systems remediation plans, and Treasury DCFO's Office of Accounting and Internal Control (AIC) monitoring progress on specific corrective actions.
Departmental Offices (DO-98-04)	EDP general controls designed to safeguard data, protect computer application programs, prevent system software from unauthorized access, and ensure continued computer operations need to be strengthened at IRS, Customs, FMS, and ATF.	Short-term action – through 12/2000 - The Treasury's Chief Information Officer (CIO) has expanded oversight of bureaus on systems security issues to ensure that the corrective actions at each bureau are achieved in a timely manner. The following plans are to be accomplished: 1) Revise draft policy requiring bureaus to established IT Security Review program; 2) OISS staff to review and revise draft policy within CIO organization; and 3) plan to publish approved policy.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
Departmental Offices (DO-98-08)	Improved Compliance with the Federal Financial Management Improvement Act is needed.	Short-term action – through 6/2000 – AIC and FSI ensure that bureaus with non-compliant financial management systems have developed a comprehensive remediation plan meeting FFMIA requirements. AIC and FSI will monitor progress under the remediation plans and ensure appropriate actions are taken if intermediate target dates are not met. Bureaus are reporting progress on a quarterly basis. Short-term action – through 9/2000 – AIC and FSI will compile financial systems remediation plans from IRS and other bureaus and forward them to OMB for review and evaluation.
DC Pension (DCP- 98-03)	There are shortcomings in the District's Office of Pay and Retirement Services.	Short-term action – through 9/2000 – 1. Refine procedures to calculate the District's administrative expenses that include billable processes and cost breakdowns for direct and indirect costs associated with the Federal workload. 2. Develop a procedures manual for use by examiners in case processing. 3. Develop process for cross matches with other benefits paying agencies and address areas having to do with continued eligibility for benefits. 4. Develop a strategy for improving the quality of employment records received from District's personnel offices. 5. Enhance automation of retirement calculations. Long-term action – through 8/2001 – Issue a Treasury privacy act system of records notice for District's pension records.
DC Pension (DCP-98-04)	The District's automated pension system is vulnerable to Year 2000 compliance failures; the District's payroll replacement system does not interface with the pension system; and the District's pension system contains overall unacceptable risk and must be replaced.	Short-term action – through 12/1999 – Ensure the District prepares effective contingency plans and completes testing of the plans. Long-term action – through 11/2000 – Work with the District to develop an interface between the new payroll system and the new pension system to ensure that the new pension system contains accurate baseline SF2806 (Individual Retirement Record) data and that the data is correctly uploaded every pay cycle.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
Federal Law Enforcement Training Center - (FLETC-91-01)	An environmental problem exists at the FLETC Glynco, Georgia outdoor firearms ranges.	Long -term action – through 12/2001 – Complete the environment restoration of the area and reconstruction of the Outdoor Firearms Ranges through the FLETC's Remedial Plan.
FMS (FMS-98-06)	Financial Audit: 1997 Consolidated Financial Statements of the United States Government. The government is unable to identify Intra-governmental transactions – Financial Statement Audit	FMS continues to work with the agencies to improve their ability to provide the accurate data necessary to resolve this issue. Corrective actions were completed for FY 1999. Once the FY 1999 audit is complete, FMS will determine appropriate corrective actions for FY2000.
FMS (FMS-98-07)	Financial Audit: 1997 Consolidated Financial Statements of the United States Government. The Government was unable to support significant portions of the more than $1.6 trillion reported as the total net costs of government operations.	FMS' on-going role is to provide support to agencies. Their ability to properly allocate costs is key to the resolution of this finding. Corrective actions were completed for FY 1999. Once the FY 1999 audit is complete, FMS will determine appropriate corrective actions for FY2000.
FMS (FMS-98-08)	Financial Audit: 1997 Consolidated Financial Statements of the US Government did not have a process to obtain information to effectively reconcile the reported change in net position of $3 billion and the reported deficit of $22 billion.	Short-term action - through 9/2000 - 1. Develop interim procedures for gathering additional data for the FY 2000 cycle; 2. Identify any additional reporting requirements; 3. Provide fund accounting guidance and training on how to implement the new requirements; 4. Develop a process (FACTS/Notes) to collect the information. Long-term action - through 1/2001- Implement the developed methodology/approach.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
FMS (FMS-99-02)	Reconciliation of fund balance with the US Treasury to the Federal Financial System (FFS) balances and Miscellaneous Account General Ledger balances are not accurately performed or adequately documented.	Short-term action – through 2/2000 - FMS' Finance Division will determine reasons for $3.7 million in S&E Appropriation and clear the differences.
FMS (FMS-99-03)	Incomplete accountability over capitalized assets. FMS is unable to support portions of its property, plant and equipment. Development and implementation of formal policies for identifying and properly recording all capital and operating leases is needed.	Action - To Be Determined.
FMS (FMS-99-04)	Treasury Managed Funds. FMS Treasury Managed Funds suspense accounts had prior reconciling differences.	Action - To Be Determined.
FMS (FMS-99-05)	Overall Deficiencies in Treasury Managed Accounts Financial Reporting Process.	Action - To Be Determined.
IRS (IRS-83-01)	Property Management – IRS has identified weaknesses in the procedures and control over the information, use and accountability of capitalized property.	Short-term action - through 12/2000 – Conduct statistically valid samples using an independent firm to confirm that the inventory for both ADP and non-ADP property is accurate for existence, completion and value prior to 12/2000.
IRS (IRS-88-01)	Resolving IRS' workload of Tax Assessments and prioritizing Collectible Assessments.	Long-term action – through 12/2000 – Roll out the Inventory Delivery System (IDS) nationwide. The Executive Steering Committee will validate the effectiveness of the results indicator, determine that it has been achieved and approve the closing of the material weakness.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
IRS (IRS-94-03)	A material weakness exists in the Internal Controls over Telecommunications Costs.	Short-term action - through 1/2000 - Implement new set of standardized Billing Analysis Reporting Tool (BART) queries and quarterly BART reviews concentrating on Potential waste, fraud and abuse of Telecom resources. Long-term action - through 6/2001 – The Executive Steering Committee will validate the effectiveness of the results indicator, determine that it has been achieved and approve the closing of the material weakness.
IRS (IRS-95-02)	Forms related to Tax-Exempt Bond issuances are not being processed.	Long-term action – through 4/2001 – Resolve entity and posting problems to Master File at Philadelphia Service Center. The Executive Steering Committee will validate the effectiveness of the results indicator, determine that it has been achieved and approve the closing of the material weakness.
IRS (IRS-95-03)	Tax Processing Systems need to be replaced.	Short-term action - through 6/2000 – Implement Primary Telephone Call Routing and Management. Mid-term action - through 3/2003 – Continue Software design activities for integrating Financial Reporting Release (FRR) data into the Payment Information Database (PIDB) to create the payment source document database to support CFO initiatives. Long-term action - through 4/2010 – Final development and Pilot enhanced secondary telephone call routing management –Phases I through V. The Executive Steering Committee will validate the effectiveness of the results indicator, determine that it has been achieved and approve the closing of the material weakness.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
IRS (IRS-97-02, 97-03, 97-04, & 97-05)	Security Issues -- IRS has identified various security issues with respect to the Computing Center, Service Centers and District Offices. Weaknesses were identified in the area of physical security, logical security, data communications management, risk analysis, quality assurance, internal audit and security, security awareness, and contingency planning.	Long-term action – through 4/2003 – Conduct visitations of number of field offices to review certification compliance for sensitive system certification weakness. The Office of Systems Standards and Evaluation is working with the district offices to mitigate their security weaknesses. The approach includes base lining the condition of security, and developing and implementing action plans to improve the district offices' continuity of operations plans, physical security, logical security, communications security, personnel and administration security, operating practices, and software quality assurance activities. The Executive Steering Committee will validate the effectiveness of the results indicator, determine that it has been achieved and approve the closing of the material weakness.
IRS (IRS-99-01)	Filing Fraud in Earned Income Tax Credit (EITC)	Short-term action – through 12/2000 – Compare Tax Year (TY) 1998 overclaim rate with the 1997 baseline to determine change. Long-term action – through 12/2002 – Use HHS/SSA data as a filter to identify potential compliance problems, e.g., with SSNs, dependents, custodial/residential issues, etc., and compare TY 2000 overclaim rate with the 1997 baseline to determine change.
IRS (IRS 99-02)	Supporting Documents for Unpaid Assessments	Short-term action – through 9/2000 – Establish standardized case files requirements to meet financial accounting requirements including work papers. Revise Collection Statue Expiration Date (CSED) listing extract criteria. Long-term action – through 1/2002 – Develop a strategic approach to evaluate current modernization plans in relation to supporting management information system.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
OCC (OCC-99-01)	Timely reconciliation of Fund balance with Treasury account with US Treasury records was not performed.	Short-term action – through 3/2000 – Bring reconciliation of account up to date; document procedures & assign ongoing responsibility to specific individuals.
OCC (OCC-99-02)	General ledger account analyses and other significant accounting tasks were not performed and/or were not subject to adequate supervisory review.	Short-term action – through 3/2000 – Temporary task teams were formed in November 1999 to begin review, analysis & clean up of general ledger accounts; Permanent, ongoing procedures are being documented as the teams complete their work.
OCC (OCC-99-03)	An adequate process was not in place for review and evaluation of the accounting treatment for unusual or non-routine financial events.	Short-term action – through 3/2000 – Accounting policies for all general ledger accounts are currently being evaluated by managers in Financial Services; Procedures for review of non-routine transactions will be documented and implemented based on this evaluation.
OCC (OCC-99-04)	A formal management accountability program is not an integral component of OCC's management.	Short-term action – through 6/2000 – OCC has created a cross-functional team of managers to evaluate and recommend a priority-based approach to developing an integrated management accountability program; the team will design, propose, revise, and lead the OCC through implementation of this program; the team will establish performance measurement criteria and assist management in evaluating the outcome of the program on an ongoing basis.
United States Secret Service (SS-97-01)	No automated system for tracking real Property; PAMS has numerous errors; and reconciliations not performed.	Short-term action – through 1/2000 - Correct PAMS errors; research exception reports; and perform reconciliations. Publish inventory procedures in Administrative Manual by 1/2000.

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL NON-CONFORMANCES	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
CUSTOMS (CS-93-01)	Core Financial Systems do not provide complete and accurate information for financial reporting and for preparation of audited financial statements.	Short-term action – through 5/2000 – Complete acceptance testing of new software chosen to replace general ledger. Intermediate action –from 9/2001 through 9/2002 – Pilot test of the initial version of the subsidiary ledger; pilot software deployment of the SAP R/3 software for the SGL; implement full software deployment of new SGL software; establish an integrated financial system based on IT modernization of commercial systems. Phase 2 will establish the generic structure of the system. Long-term action – through 9/2004 – In phases 3 and 4 transaction specific functionality will be added.
CUSTOMS (CS-93-02)	The automated systems and manual processes for SEACATS cannot be relied upon.	Short-term action - through 9/2000 - Automate the currency and property functions to generate a complete analysis of changes in seized and forfeited property. Complete module in SEACATS to process refunds to multiple violators; complete asset sharing module in SEACATS; provide multiple forfeiture functionality in SEACATS; and improve General Ledger updates.
Departmental Offices (DO-99-01)	The Department's Financial Management Division's accounting services are provided by the Center for Applied Financial Management (CAFM). The issue is the lack of emergency back-up capabilities.	Long-term action - through 5/2001 – CAFM expects to complete the testing and implementation of back-up capabilities by this date.

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL NON-CONFORMANCES	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
Executive Office of Asset Forfeiture (AF-98-01) -	U.S. Customs Service' Seized Assets and Case Tracking System (SEACATS) does not contain accurate and sufficient data that can be relied upon to prepare the analysis of changes in seized and forfeited property without substantial manual manipulation and reconciliation.	Short-term action – through 9/2000 – Fund management will continue working with the U.S. Customs Service working group designated to identify and coordinate resolution of SEACATS performance problems. Long-term action –through 9/2001 – Fund management will work diligently with U.S. Customs Service to identify and resolve SEACATS performance requirements needed to support Fund financial statements. Management will also resolve to properly notify Departmental information principals should continued investment in SEACATS become unwise.
Executive Office of Asset Forfeiture (AF-98-02/ 98-03)	Accounting records are primarily maintained on a cash basis; The Fund's general ledger does not record all balances and transactions that are reflected in the financial statements.	Short-term action - through 9/2000 – Fund management has undertaken to provide funding to the U.S. Customs Service to resolve performance problems associated with the SEACATS. In addition, Fund management will work diligently with the Customs Service to identify and coordinate resolution of SEACATS performance problems. Fund management has undertaken to deploy a single inventory system to support the 3 non-Customs bureaus participating in the Fund to relieve the use of two separate systems used among the 3 bureaus to 1 system used by the 3 bureaus. Long-term action –To be Determined – Fund management will work with the Customs Service to identify and resolve SEACATS performance requirements needed to support Fund financial statements.

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
FMS (FMS-98-09)	Area for Improvement in Computer Controls. Information in FMS' Systems is at significant risk because of serious general control weaknesses.	Short-term action - through 9/2000 – Correct remaining short-term corrective actions on the individual weaknesses. Long-term action –through 9/2001 – Continue to correct the remaining planned corrective actions.
IRS (IRS-93-01)	Management of Operating Funds: IRS' internal controls were not adequate to provide a reasonable basis for determining compliance with laws governing the use of budget authority or reasonable assurance that its disbursements were appropriate.	Long-term action - through 1/2001 - Implementation of Project tracking to monitor commitment, obligations, and expenditures related to postage/transportation budgets. The Executive Steering Committee will validate the effectiveness of the results indicator, determine that it has been achieved and approve the closing of the material weakness.
IRS (IRS-94-01)	Erroneous Restricted Interest. Current system limitations require manual computations.	Short-term action - through 3/2000 – Complete development of the Total Interest Program System (TIPS). Long-term action - through 3/2001 - Take initiatives to improve the accuracy rate of interest calculations. After the baseline is established, improve the accuracy rate of interest calculations by 2%.
IRS (IRS-94-02)	Non-Rebate Erroneous Refunds. The identification and prevention of clerical or ministerial mistake erroneous refunds, preventive systematic and processing procedures must be in place to ensure revenue protection.	Short-term action - through 6/2000 – Determine effectiveness of current internal controls in all functional areas and recommend short/Long-term corrective actions to prevent duplicate refunds in all systems, and develop mechanism for all program areas to report corrective actions taken to prevent erroneous refunds.
IRS (IRS-95-01)	Financial Accounting of Revenue – needs detailed transactional data to support custodial financial reporting.	Short-term action - through 6/2000 – Internal Management Plan for the Integrated Financial System. Long-term action - through 3/2009 – Develop multi-phased Payment Information Data Base projects, and continue design, development and deployment of modernized operating systems to replace legacy systems.

SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION
IRS (IRS-99-01)	Financial Statements: Administrative Activity issues including: 1) failure to reconcile the administrative fund balance with Treasury in 1998; 2) lack of sufficient subsidiary records to support account balances in the general ledger; 3) failure to resolve suspense account items; and 4) lack of ability to reliably prepare four of the six financial statements.	Short-term action - through 2/2000 – Establish valid account balances, and complete FY 1999 Financial Statements and submit to Treasury Department by January 14, 2000.
OCC (OCC-99-01)	Timely and complete information for tracking financial expenditures is not available for program personnel, i.e., there is no formal system for administrative control of funds.	Long-term action - through 1/2001 – OCC will purchase and implement a new, JFMIP compliant financial management system by the end of 2000. The system will include appropriate funds control capability.
OCC (OCC-99-02)	OCC's financial management systems currently do not comply with Federal financial management systems requirements and the US Government Standard General Ledger at the transactional level.	Long-term action - through 1/2001 – In preparation for accounting and reporting during 2000, OCC is revising the framework of the existing financial management system to incorporate the SGL at the transaction level; OCC will purchase and implement a new, JFMIP compliant financial management system by the end of 2000.
U.S. Secret Service (SS-96-01)	Secret Service does not have reliable Seized Property Systems.	Long-term action - through 12/2000 – Conduct a physical inventory to establish values of seized assets as of 9/30/98; implement a new information system for storage and retrieval of information on seized property.
U.S. Secret Service (SS-97-02)	Material and supplies are not entered in the US Standard General Ledger.	Short-term action - through 4/2000 – Enter consumption of inventory and reimbursable transactions in the system.

SECTION 2 MATERIAL INTERNAL CONTROL WEAKNESSES OPENED AND CLOSED DURING FY 1999

BUREAU	DESCRIPTION OF MATERIAL WEAKNESS	DESCRIPTION OF THE REMEDIAL ACTIONS
FMS (FMS-99-01)	Strengthen controls over property, plant, and equipment	This weakness was identified during FY 1998 Financial Statement Audit, and the FY 1999 FMS Financial Statement Audit effectively validated the successful resolution of the weakness. (Monthly reconciliation between the Manufacturer Appraisal Company Asset Management System (MACAMS) and the general ledger are now performed with monthly recording of addition and deletions. Also, FMS established better control over depreciation calculations, and a policy to perform an annual physical inventory of all property and equipment owned by FMS has been put in place.)
Treasury Franchise Fund (FRF 98-01)	FMS needs to reconcile Treasury Fund balance and post adjusting entries on the Franchise Fund activities.	Action Completed. Provided adequate training to personnel responsible for performing the cash reconciliations; reconciled and researched TFS-6653 differences and posted adjustments timely.
Treasury Franchise Fund (FRF 98-02)	FMS needs to strengthen accrual process for year-end liabilities.	Action completed. Recorded only those transactions for which there is adequate documentation, and obtained written approval from the Center for Applied Financial Management (CAFM) personnel for estimates used to calculate accruals for revenue and operating expenses other than payroll.

SUMMARY OF MANAGEMENT REPORT ON FINAL ACTIONS ON AUDIT RECOMMENDATIONS

Introduction

The Inspector General Act Amendments of 1988 (the Act), Public Law 101-504, require that the Inspectors General and the Secretaries of Executive Agencies and Departments submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential benefits. The Treasury Office of the Inspector General (OIG) continues to issue its semiannual reports as standalone documents. However, beginning with the FY 1998 Accountability Report, the Department discontinued producing the standalone Secretary's Semiannual Report to Congress and instead consolidated and annualized all relevant information for inclusion in the Accountability Report. This action is in accordance with provisions of the Government Management Reform Act, particularly as it pertains to the Governmentwide effort to streamline reporting. In addition, the Treasury Inspector General for Tax Administration (TIGTA) was created by statute in January 1999 to perform the internal audit function for the Internal Revenue Service, with the OIG having continuing responsibilities regarding the rest of the Treasury organization. The information contained in this section of the Accountability Report represents a consolidation of information provided separately by the OIG and TIGTA organizations.

Departmentwide Management Control Program Activities

During FY 1999, the Department continued its efforts to improve both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the OIG and TIGTA organizations. Various short-term improvements were made to the Inventory Tracking and Closure System (ITCS), which is used for tracking all open audit findings, and the range of management information reports extracted from that system was increased significantly. Departmental oversight of bureau management control program activities, as well as communication and coordination with the bureaus in general, was strengthened through a combination of: (1) on-site visits/reviews with bureau control personnel; (2) periodic management control program forums involving key persons from the OIG, TIGTA, all bureaus and program areas, and the Department; and (3) the issuances of Management Control Program Quarterly Reports which focus on significant control issues throughout the organization and which are distributed to the Deputy Secretary, bureau heads, bureau CFOs and other key personnel. Finally, with respect to the resolution of recommendations in audit reports that identify monetary benefits, the Department regularly reviews progress made by the bureaus in realizing those benefits, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations being tracked.

Included in the summary figures are a number of factors that are generally grouped into three categories: Disallowed Costs, Better Used Funds, and Revenue Enhancements.

Disallowed Cost - It is a questioned cost that management has sustained, or has agreed would not be charged to the Government by a contractor.

Funds Put to Better Use - It is sometimes referred to as "Better Used Funds" which are amounts cited in an audit report recommendation which could, according to the audit report, be used more efficiently if management were to take actions to implement and complete the recommendation. Possible planned corrective actions which may be used to reallocate these funds more efficiently might involve reducing outlays to contractors or by avoiding unnecessary expenditures noted in pre-award reviews of contract agreements, or by avoiding costs with the implementation of recommended operational improvements. De-obligating funds from programs or operations that are not as efficient or productive as they once were or were planned to be, as well as implementing any other savings which are specifically identified, can also be classified as "Better Used Funds."

Revenue Enhancements - A revenue enhancement is an action recommended in an audit report which would, if implemented, enhance the General Fund receipts of the Federal Government, usually without having any budgetary impact on any of the Treasury Department's appropriations. These revenue enhancements are a key element in the budgetary issues of the revenue collecting bureaus (IRS, ATF, and USCS). If a bureau relies on the revenue collected for maintenance of those revenue producing areas, the revenue enhancements that are implemented can have a significant impact on the ability of these areas to operate efficiently while still providing the services that generate the revenue to the bureau.

Management Decision - The evaluation by management of the findings and recommendations included in an audit report and the issuance of a final decision concerning its response to such findings and recommendations, including actions considered to be necessary.

Report Summary and Highlights

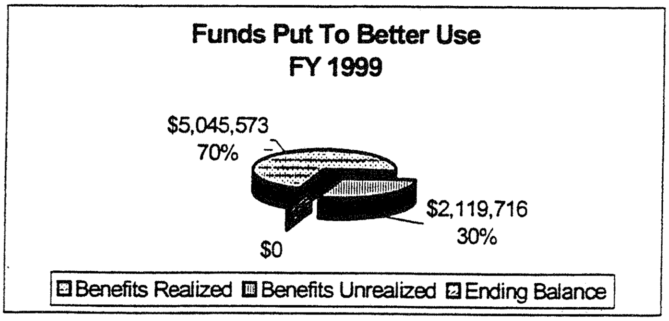
The statistical data in the following summary table and charts represents the Department's audit report activity for the period from October 1, 1998 through September 30, 1999. The data reflects information on reports that identified potential monetary benefits that were issued by the OIG, as well as those issued by TIGTA.

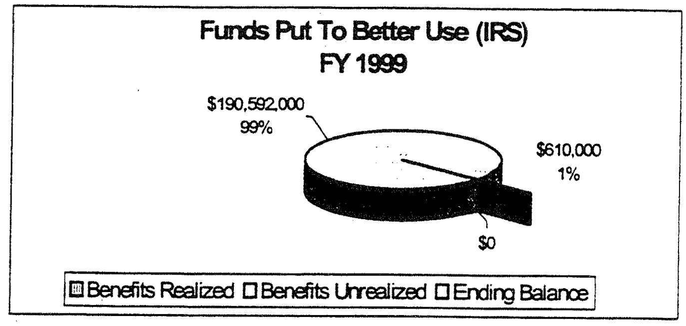
AUDIT REPORT ACTIVITY WITH POTENTIAL MONETARY BENEFITS
FOR WHICH MANAGEMENT HAS IDENTIFIED CORRECTIVE ACTIONS
(OIG and TIGTA)
October 1, 1998 through September 30, 1999
(Dollars in Millions)

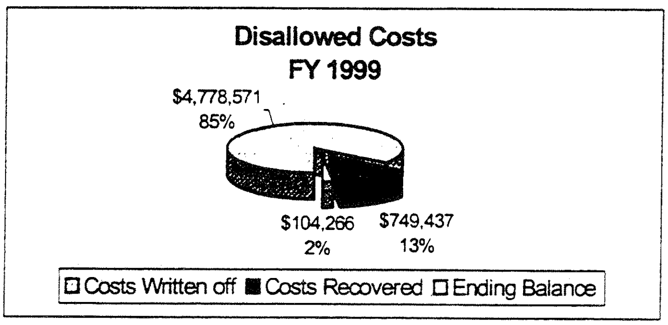
	Disallowed Costs		Better Used Funds		Revenue Enhancements		**Total**	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	**Reports**	**Dollars**
Beginning Balance	3	$.5	1	$.2	1	$12.4	5	$13.1
New Reports	16	10.5	11	198.8	8	85.9	35	295.2
Total Reports	19	11.0	12	199.0	9	98.3	40	308.3
Reports Closed	(11)	(10.6)	(10)	(8.3)	(8)	(98.0)	(29)	(116.9)
Ending Balance	**8**	**$.4**	**2**	**$190.7**	**1**	**$.3**	**11**	**$191.4**

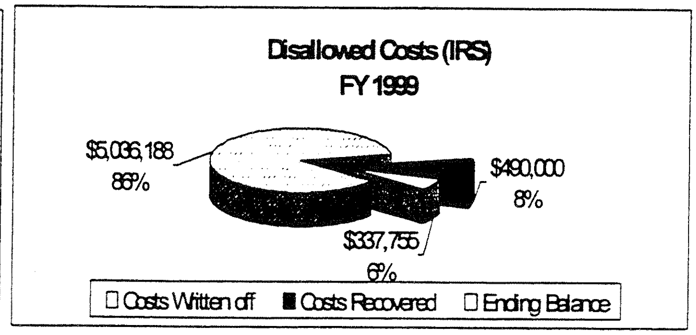
As shown, there were **five** reports at the beginning of the period requiring action, with associated potential benefits of **$13.1 million**. **Thirty-five** new reports were issued, with an associated dollar amount of **$295.2 million**. Final action was taken on **twenty-nine** reports during the period, with an associated dollar amount of **$116.9 million**, which left an ending balance of eleven reports and an associated dollar amount of **$191.4 million** still requiring management action.

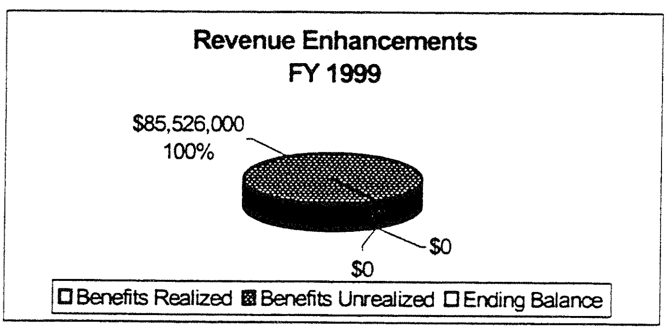
The following graphs present the summary results for FY 1999 of how much of the projected monetary benefits have been realized and how much have not been realized and, thus, written off. IRS' data as reported by TIGTA are separately depicted.

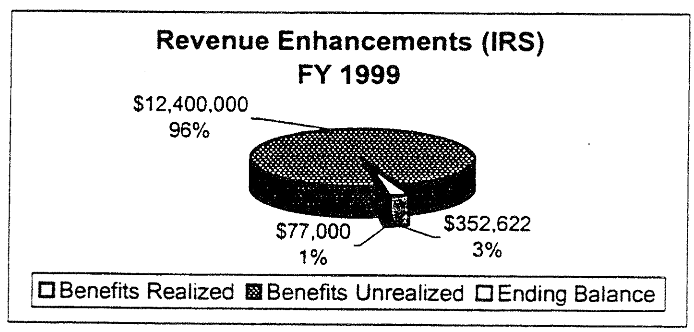










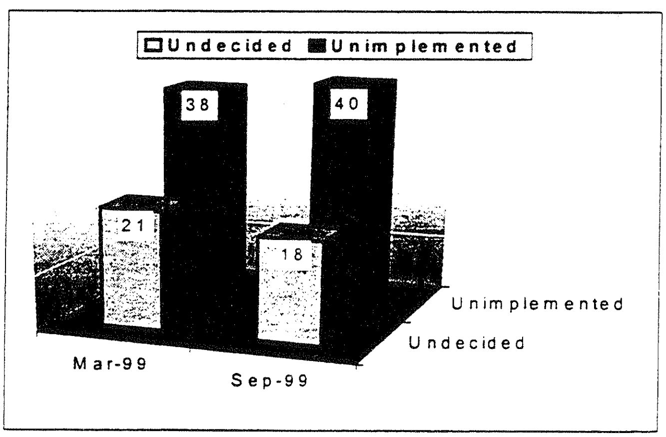


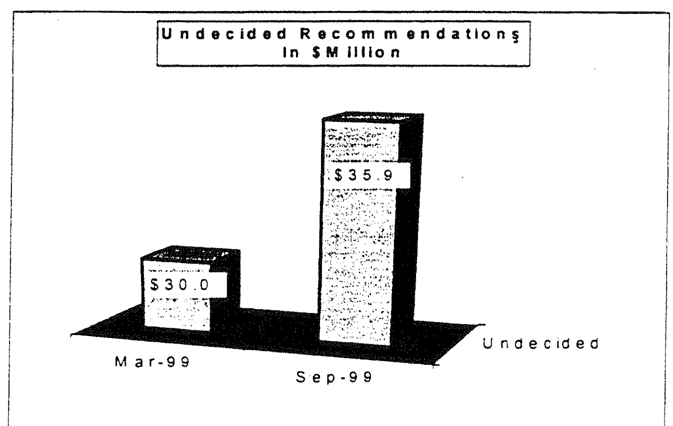
Ending Balance - Supplemental Information

In addition to the $191.4 million ending balance of recommendations with monetary benefits which management has agreed to pursue, as of September 30, 1999, there were 18 OIG reports identifying $35.9 million in potential benefits, which have remained undecided by bureau management for more than six months. The Department is actively working with both the bureaus and the OIG to verify the continuing validity of the original recommendations and to ensure that, where appropriate, the bureaus remove the items from the undecided category and develop implementation action plans. The majority of the 18 reports are on contract audits and generally involve nominal amounts. Recommendations attendant to program_audits comprise the majority of the outstanding potential benefits at $34.6 million (Customs, $3.2 million; BPD, $9.4 million; and IRS, $22.0 million).

Undecided Audit Recommendations and Significant Unimplemented Recommendations

As of September 30, 1999, the numbers of Unimplemented Recommendations and Undecided Recommendations were 40 and 18, respectively. The 18 Undecided Recommendations had the monetary value of more than $35 million.





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Part 4

Auditor's Report and Management Response

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Part 5

Supplemental Information

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SUPPLEMENTAL INFORMATION

INTRODUCTION

This section provides the Required Supplemental Information described in the Office of Management and Budget Bulletin 97-01, Form and Content of Agency Financial Statements, and also includes Other Accompany Information and the Required Stewardship Supplemental Information, which provide additional financial information. Other program and financial information such as Prompt Payment Act compliance and the biennial review of user fees are also provided.

SUPPLEMENTAL INFORMATION TO FINANCIAL STATEMENTS

Note A. Segment Information

Franchise Fund

The Treasury Franchise Fund was authorized by the Government Management and Reform Act of 1994 and P.L. 104-208, the Treasury Department FY 1997 Appropriations Act. The Treasury Franchise Fund provides administrative support services on a competitive, fee-for-service, and full-cost basis. The Fund currently consists of eleven separate "business activities" each with a separate account established to facilitate financial reporting. The financial statements presented in this report are consolidated to reflect the activity of the Fund as a whole. The accounts established to date are:

Treasury Franchise Fund	20X4560 (Corporate Account)
Business Activity (Los Angeles)	20X4560.001
Business Activity (Seattle)	20X4560.002
Business Activity (Cincinnati)	20X4560.003
Business Activity (Baltimore)	20X4560.004
Center For Applied Financial Management	20X4560.005
Federal Quality Consulting Group	20X4560.006
Business Activity (St. Louis)	20X4560.007
Business Activity (Chicago)	20X4560.008
Business Activity (San Antonio)	20X4560.009
Administrative Resource Center	20X4560.010
Inspectors General Audit Training Institute	20X4560.011

Some of the major customers include: Department of the Defense, Department of the Treasury, Department of Justice and various other Executive department's and agencies.

Franchise Fund
Segment Information
(Millions)

	Amounts
Fund Balance with Treasury	$20
Accounts Receivable	19
Property, Plant and equipment	1
Other Assets	0
Total Assests	40
Accounts Payable	23
Other Liabilities	4
Total Liabilities	27
Cumulative Results of Operations	13
Total Liabilities and Net Position	40
Total Costs	132
Exchange Revenue	134
Other Financing Sources	3
Excess of Revenues and Financing Sources over Costs	$5

Working Capital Fund

The Departmental Office's Working Capital Fund is a fee-for-service organization that is fully reimbursable and competitive.

The fund presently offers the following program services to various Treasury bureaus: tele-communications, payroll/personnel systems, printing and other.

Working Capital Fund
Segment Information
(Millions)

	Amounts
Fund Balance with Treasury	$183
Accounts Receivable	22
Property, Plant and equipment	5
Other Assets	1
Total Assest	211
Accounts Payable	34
Other Liabilities	177
Total Liabilities	211
Cumulative Results of Operations	0
Total Liabilities and Net Position	211
Total Costs	242
Exchange Revenue	242
Other Financing Sources	0
Excess of Revenues and Financing Sources over Costs	$0

Note B. Other Claims for Refunds and Drawbacks

The Department has estimated that $20.9 billion may be paid out as other claims for tax refunds and drawbacks. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is $7.6 billion and by Appeals is $11.4 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Note C. Unpaid Assessments

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the Federal government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 1999 were as follows in millions:

Gross Unpaid Assessments	$231,000
Less Compliance Assessments Written Off	154,000
Net Amount	$77,000

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $15 billion assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

U. S. Customs Service (Customs)

Customs reviews selected documents to ensure all duties, taxes, and fees owed to the Federal government are paid and to ensure regulations are followed. If Customs believes duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. Customs regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. Work in progress will continue until all avenues to file a protest have expired or an agreement is reached. During this protest period, Customs does not have a legal right to the importer/violator's assets, and consequently, Customs recognizes accounts receivable only when the protest period has expired or an agreement is reached. For Fiscal Year 1999, Customs had a legal right to collect $921 million of receivables. In addition, there is an additional $2.1 billion representing records still in the protest phase.

Internal Revenue Service (IRS)

The unpaid tax assessments balance was about $231 billion as of September 30, 1999. This unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the Service's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under Federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered Federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered Federal taxes receivable. Assessments with little or no future collection potential are called write-offs.

Of the $231 billion balance of unpaid assessments, $127 billion represents write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt or defunct taxpayer's, including many failed financial institutions liquidated by the Federal Deposit Insurance Corporation (FDIC) and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires. In addition, $27 billion of the unpaid assessments balance represents amounts that have not been agreed to by either the taxpayer or a court. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered Federal taxes receivable.

Note D. Abatement of Taxes

Abatement of taxes which occurred during FY 1999 amounted to $48.6 billion.

Note E. Heritage/Stewardship Property Plant and Equipment

These assets include the Treasury Department building and the Treasury Annex building. The Department also has four multi-use heritage assets located in Puerto Rico.

Heritage Assets, Stewardship Land (Units - Actual)	Heritage Assets	Stewardship Land
(1) Beginning Balance	5	1
(2) Additions	0	0
(3) Withdrawals	0	0
(4) Ending Balance	5	1

Note F. Statement of Budgetary Resources Dis-aggregated by Major Accounts

The following table represents a dis-aggregation of The Department of the Treasury's major budget accounts, which are aggregated in the Statement of Budgetary Resources.

Treasury

Statement of Budgetary Resources Disaggregated by Major Accounts
(MILLIONS)

As of September 30, 1999

Budgetary Resources	Appropriated Funds	Revolving Funds	Trust Funds	Other Fund Types	Total
Budget Authority	318,777	763	354	619	$320,513
Unobligated Balance	14,095	24,812	3,558	965	43,430
Spending Authority from Offsetting Collections Earned	1,326	7,192	400	49	8,967
Adjustments, Anticipated for Rest of Year	(3,119)	36	8	33	(3,042)
Total Budgetary Resources	331,079	32,803	4,320	1,666	369,868
Status of Budgetary Resources					
Obligations Incurred	315,877	6,602	913	716	324,108
Unobligated Balances Available	13,875	26,233	3,402	310	43,820
Unobligated Balances Not Available	1,327	(32)	5	640	1,940
Total Budgetary Resources	331,079	32,803	4,320	1,666	369,868
Outlays					
Obligations Incurred	315,877	6,602	913	716	324,108
Spending Authority from Offsetting Collections and Adjustments	(2,075)	(7,227)	(404)	(75)	(9,781)
Obligated Balance, Net-Beginning of the Period	7,326	686	356	260	8,628
Obligated Balance, Net-End of Period	(6,776)	(636)	(349)	(280)	(8,041)
Total Outlays	314,352	(575)	516	621	$314,914

Note G. Deferred Maintenance

In FY 1999, the Department reported $11 million in deferred maintenance on general property plant and equipment. The $11 million represents deferred maintenance on vehicles, aircraft, vessels and buildings & structures owned by the Department.

As reported, Treasury bureaus use a specific methodology in determining deferred maintenance. This procedure includes reviewing equipment, building and other structure logistic reports. Upon completion of this step, logistic personnel use a condition assessment survey to determine the status of referenced assets. This procedure is performed in accordance with Statement of Federal Financial Accounting Standard #6 guidelines. A five level rating scale (excellent, good, fair, poor and very poor) is used for assessment purposes. Bureau logistic personnel subsequently identify maintenance not performed as scheduled and establish future performance dates. A summary of FY 1999 deferred maintenance is as follows:

	Deferred Maintenance	Asset Condition for Deferred Maintenance Only
(1) Building & Structures	8	Poor to Fair
(2) Equipment	3	Poor to Fair
(5) Total	11	

Note H. Intra-governmental Assets, Liabilities, Revenue & Costs

Assets (in millions)

Partner Agency	Fund Balance	Accounts Receivable /Advances	Loans Receivable	Other	Total
Fund Balance	60,625	N/A	N/A	N/A	$60,625
General Fund		5,376,054	0	1	5,376,055
Agriculture -12		10	86,001	0	86,011
Commerce -13		1	152	0	153
Defense - 97, 21, 57, 17		459	3,808	27	4,294
Education - 91		0	52,457	0	52,457
Energy - 89		52	2,547	0	2,599
HHS -75		16	4	0	20
HUD - 86		2	14,433	0	14,435
Interior -14		85	1,405	0	1,490
Justice -15		30	20	0	50
Labor -16		6,259	0	0	6,259
State -19		2	0	0	2
Transportation - 69		2	384	0	386
Veterans Affairs - 36		10	2,540	0	2,550
AID 72		0	50	0	50
EPA - 68		0	38	0	38
FEMA - 58		0	618	0	618
GSA -47		35	2,620	0	2,655
SBA -73		0	10,628	0	10,628
SSA -28		12	0	0	12
Railroad Retirement		0	2,808	0	2,808
FCC		0	3,939	0	3,939
Export Import Bank		0	7,028	0	7,028
Other		151	8,258	11	8,420
Total	60,625	5,383,180	199,738	39	$5,643,582

Accounts receivable/advances (except for the general fund partner) is displayed as "other" on the Department's balance sheet.

Liabilities (in millions)

Partner Agency	Accounts Payable	Debt/ borrowings from other Agencies & Interest Payable	Other	Total
Agriculture -12	-	18	-	$18
Commerce -13	-	11	2	13
Defense - 97, 21, 57, 17	32	156,583	18	156,633
Energy - 89	-	10,259	-	10,259
HHS -75	1	184,768	1	184,770
HUD - 86	-	20,989	-	20,989
Interior -14	-	2,824	-	2,824
Justice -15	25	767	-	792
Labor -16	19	89,741	129	89,889
State -19	1	10,309	6	10,316
Transportation - 69	-	42,935	-	42,935
Veterans Affairs - 36	-	14,571	-	14,571
AID 72	-	-	6	6
EPA - 68	-	5,816	-	5,816
GSA -47	29	-	-	29
NASA - 80	-	17	-	17
OPM -24	1	515,885	16	515,902
SSA -28	-	868,920	5	868,925
Other	203	74,962	43	75,208
Total	311	1,999,375	226	1,999,912

Accounts payable is displayed as other on the Department's balance sheet.

Nonexchange Revenue (in millions)

Partner Agency	IN	Out
General Fund	$0	$12,404
Defense - 97, 21, 57, 17	20	0
Other	175	175
Totals	$195	$12,579

The technical amendments to OMB 97-01, dated January 7, 2000 require agencies with earned revenues from trade transactions (net of intra-entity activity) greater than $2 billion to report such intra-governmental revenue by trading partner. The Department of Treasury did not have earned revenues from trade transactions greater than $2 billion for fiscal year 1999.

Other Accompanying Information

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A. Tax Burden and Tax Expenditures

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The tables below present the latest available information on income tax and on related income, deductions, and credits for individuals by income level and for corporations by size of assets. The information illustrates the tax burden borne by different income and asset brackets. The tables are only representative of more detailed data and analysis available from the Statistics of Income (SOI) office.

Total tax expenditures are the foregone federal revenue resulting from deductions and credits provided in the Internal Revenue Code. Since tax expenditures directly affect funds available for government operations, decisions to forego federal revenue are as important as decisions to spend federal revenue.

The tax expenditures for deductions is calculated using the tax burden percentage of gross income (gross receipts for corporations) applied to the total deductions. Total credits against tax liability result directly in tax expenditure.

Individual Income Tax Returns (Tax Year 1997 Data)

	Size of Adjusted Gross Income (in thousands)					
	Under $15	$15 under $30	$30 under $50	$50 under $100	$100 under $200	Greater than $200
Total returns	41,442,959	29,403,472	22,754,599	21,635,161	5,377,899	1,807,901
Gross income	$251,879,550	$649,133,310	$895,174,520	$1,490,039,536	$717,301,508	$1,013,376,242
Adjusted gross income	$247,905,412	$642,929,548	$887,886,137	$1,478,927,407	$707,810,825	$1,004,490,653
Tax	$9,066,265	$47,405,241	$90,642,683	$191,641,015	$126,712,802	$274,014,021
Tax burden % of gross income	3.60 %	7.30 %	10.13 %	12.86 %	17.67 %	27.04 %
Average Tax per Return	$219	$1,612	$3,983	$8,858	$23,562	$151,565
Deductions on Taxable Income						
Standard deduct.	$175,366,437	$137,233,966	$82,597,364	$42,081,511	$3,563,819	$852,828
Itemized deduct.	15,261,739	46,472,056	100,270,066	227,238,858	115,932,769	115,634,682
Medical & dental expense	5,219,993	8,629,481	6,584,476	6,224,793	1,994,117	630,761
Interest paid	5,324,644	18,369,234	45,502,896	99,970,316	46,536,096	34,896,011
Charitable contributions	1,170,536	5,466,441	12,335,025	29,945,760	16,880,392	33,393,805
Other itemized deductions	3,546,566	14,006,900	35,847,669	91,097,989	50,522,164	46,714,105
Total Deductions	$190,628,176	$183,706,022	$182,867,430	$269,320,369	$119,496,588	$116,487,510
Total Expenditures - Deductions	$6,862,614	$13,410,540	$18,524,471	$34,634,599	$21,115,048	$31,498,223
Credits Against Tax Liability						
Child care credit	$43,688	$579,658	$651,690	$927,036	$216,620	$45,313
Credit for elderly and disabled	32,481	8,802	0	0	0	0
Foreign tax credit	11,022	38,935	98,198	261,377	639,085	3,024,843
EITC, offset tax liability	386,516	3,381,476	0	0	0	0
Other Credits	2,335	40,258	117,376	302,276	242,107	1,127,762
Total Credits	$476,042	$4,049,129	$867,264	$1,490,689	$1,097,812	$4,197,918
Total Expenditures – Individual	$7,338,656	$17,459,669	$19,391,735	$36,125,288	$22,212,860	$35,696,141

Corporation Income Tax Returns (Tax Year 1996 Data)						
	Size of Total Assets (in thousands)					
	Under $1,000	$1,000 under $10,000	$10,000 under $50,000	$50,000 under $100,000	$100,000 under $250,000	Greater than $250,000
Total returns	4,193,284	370,870	42,931	8,475	7,597	8,212
Total receipts	$2,103,706,356	$2,204,250,957	$1,357,281,371	$505,390,049	$741,012,445	$8,614,076,827
Taxable income	$23,987,260	$26,223,912	$25,840,044	$16,289,230	$28,886,085	$518,613,373
Total tax	$5,608,382	$8,095,501	$8,419,769	$5,242,027	$9,018,812	$134,236,455
Tax burden – % of gross total receipts	0.27%	0.37%	0.62%	1.04%	1.22%	1.56%
Average tax per return	1,337	21,828	196,123	618,528	1,187,154	16,346,378
Deductions on Taxable Income						
Net operating loss	$10,169,327	$5,567,341	$4,418,220	$2,549,565	$4,173,461	$28,216,598
Dividends received	404,682	537,323	638,157	397,935	851,843	16,896,991
Public utility Dividends paid	5	-	-	-	2	70,569
Total Deductions	$2,064,464,946	$2,163,334,835	$1,326,173,989	$486,653,358	$703,438,348	$7,984,023,542
Total Expenditures – Deductions	$5,503,766	$7,945,229	$8,226,797	$5,047,685	$8,561,500	$124,418,089
Credits against Tax Liability						
Foreign tax credit	$136,625	$24,948	$135,510	$184,920	$598,113	$39,163,635
U.S. possessions tax credit	5,568	33,774	157,970	201,573	308,939	2,351,476
Non conventional source fuel credit	14,532	3,050	8,603	4,317	9,681	847,192
General business credit	188,888	79,870	107,354	70,153	132,786	3,648,978
Other credits	52,564	143,144	149,843	80,464	137,726	4,109,458
Total Credits	$398,177	$284,786	$559,280	$541,427	$1,188,245	$50,120,739
Total Expenditures - Corporation	$5,901,943	$8,230,015	$8,786,077	$5,589,112	$9,749,745	$174,538,828

The table above includes amounts for total deductions and total credits that are based upon estimates from samples. The table above is selective in reporting and does not include a breakout of all allowable deductions and credits. Rather, specific deductions and credits are provided for information purposes only. The table on individual income tax credits on the previous page applies in the same fashion.

B. Tax Gap

The tax gap is the aggregate amount of tax imposed by the tax laws for any given tax year that is not paid voluntarily and timely, excluding interest and penalties. Although there is a tax gap for each type of tax, the Department does not have current information upon which to base a reasonable estimate of their magnitude.

The collection gap is the cumulative amount of assessed taxes, including penalties and interest, which the Department expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the Department's balance sheet. The tax gap and the collection gap are related and overlapping concepts. The collection gap includes all of the uncollectible taxes for a particular tax year of the tax gap, and uncollectible taxes from prior years.

C. Child Tax Credit

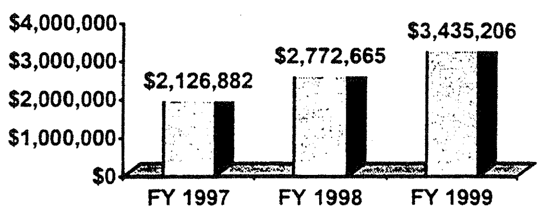
The child tax credit was originally authorized by the Taxpayer Relief Act of 1997 (Public Law 105-34). The child tax credit is a special credit for taxpayers who work, whose earnings fall below the established allowance ceiling, and who have a qualifying child. In FY 1999 the Department issued $446 million in child tax credit refunds. An additional $14.7 billion of child tax credit refunds were applied to reduce taxpayer liability

PROMPT PAYMENT

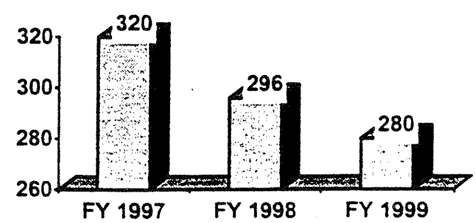
The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. The Department continued to reduce the percentage of interest payments through increased management attention on payment processes, enhanced financial systems, and staff training on Prompt Payment Act compliance. Treasury continued to increase the use of the Government Purchase Card for small purchases, third party drafts, and increased payments through Electronic Funds Transfer to ensure timely payments to vendors.

The following charts provide comparative information on Treasury's compliance with the Prompt Payment Act.

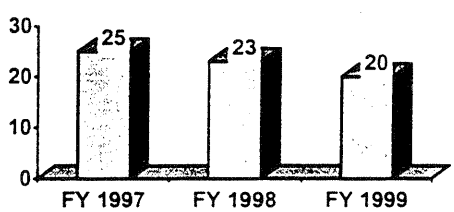
Total Invoices Paid
Dollar Amount (in Thousands)



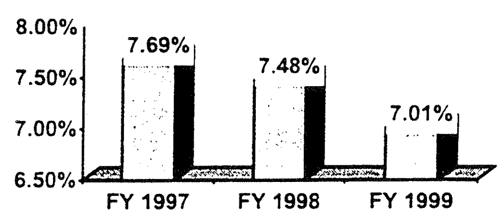
Total Invoices Paid
Number (in Thousands)



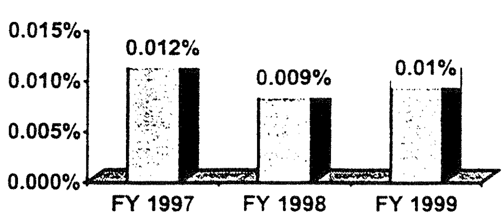
Total Invoices Paid Late
Number (in Thousands)



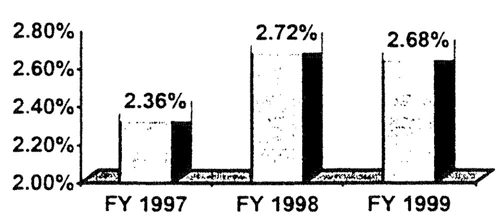
Percentage of
Invoices Paid Late



Percentage of Dollar Amount
of Interest Penalties Paid



Percentage of Number of
Interest Penalties Paid



BIENNIAL REVIEW OF TREASURY "USER FEES/ CHARGES"

The Chief Financial Officers (CFO) Act of 1990 and the Office of Management and Budget (OMB) Circular A-25, require agencies to biennially review their user fees/charges to include: (1) assurance that existing charges are adjusted to reflect unanticipated changes in cost or market values; and (2) a review of all agency programs to determine whether fees should be assessed for Governmental services or the user of Government goods or services.

The Department requested each Bureau to conduct a review of their user fees. For purposes of the review, charges include collections based on statutory requirements, such as, U.S. Customs merchandising processing fees, firearms licenses, explosive licenses, and permit fees, etc. and administrative costs (e.g., overhead for reimbursables). Fees not included in this review are collections associated with taxes, fines, or penalties.

Biennial reviews are intended to identify whether fees assessed by the bureau cover the program and administrative cost associated with the assessed charge. Bureaus are responsible for conducting the reviews, and where the reviews indicate adjustments in the charges are needed, they are to make those changes in the amount charged to recover the costs. In instances where legislative (statutory) changes are needed in order to revise the charge (e.g., user fees), the bureau is to take action to submit legislative changes, proposing increases or decreases in the statutory charge. The status of these reviews varies among the bureaus. Generally, each bureau performs a review that identifies the following:

- Type and purpose of charge.
- Authority of the charge (i.e., Economy Act for reimbursable charges, statutory legislation for user fees, etc.).
- Amount of charge.
- An indication of whether the current charge covers costs.
- Account where fee is collected.
- Date of last review.
- A listing of pertinent problems or concerns with reviewing or administering the charge.

Based on the information provided to-date on the status of bureau reviews, the Customs Service completed their review and has determined that several of their user fees do not cover costs. Customs will reevaluate those user fees/charges and initiate actions to make the necessary adjustments in FY 2000. However, in several instances, legislative changes are required to revise the user fees and this will take time to implement. Accordingly, for FY 1999, Customs in not in full compliance with the CFO Act.

The Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985 also requires a biennial review of user charges. Customs reviewed the COBRA fees during FY 1999, but has not made recommendations for changes to those fees.

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